

Bajaj Hindusthan Sugar Limited

December 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	5,811.75 (Reduced from 6,497.99)	CARE D (Single D)	Reaffirmed
Short Term Bank Facilities	278.83	CARE D (Single D)	Reaffirmed
Total Bank Facilities	6,090.58 (Rs. Six Thousand Ninety Crore and Fifty-Eight Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the rating assigned to the bank facilities of Bajaj Hindusthan Sugar Limited (BHSL) takes into account poor liquidity position of the company to service the upcoming debt obligations on the back of significant cane dues which need to be cleared in the near term. The rating continues to remain constrained by BHSL's leveraged capital structure, substantial investment in group companies and cyclical & regulated nature of sugar business. The rating takes note of the promoter's long track record of operations in sugar industry and BHSL's diversified revenue profile.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Improvement in overall operational performance of the company leading to substantial improvement in its financial risk profile.
- Effective management of its working capital and improvement in its liquidity position.
- Ability of the company to recoup its advances & investments from the group companies in a timely manner and reduce the overall debt exposure/sugarcane liabilities from the funds so received
- Any equity infusion resulting into significant improvement in the capital structure.
- Regularization of debt servicing on all the facilities for a sustained period

Negative Factors- Factors that could lead to negative rating action/downgrade: NA

Detailed description of the key rating drivers

Key Rating Weaknesses

Poor liquidity position

While the company has maintained delay free track record since few months, the liquidity position of the company continues to remain poor with low level of free liquid balances and expected inadequate cash generation from operations to service its upcoming debt obligations. BHSL has sizeable quantum of cane arrears of around Rs. 2202 crore as on November 30, 2021. Large part of these dues pertains to last sugar season and these will be paid on rolling basis from the sale of sugar of current season and likewise. Against this, BHSL has sugar inventory of 10.45 lac quintal valued at Rs.356 crore as on November 30, 2021. BHSL has high pressure to clear the cane dues and accordingly, company has been expediting the payment by mobilizing around 80-85% of its cash inflows towards clearance of farmer dues. Such application of funds towards cane dues has resulted into inadequate surplus available for debt servicing in upcoming months as company has large debt commitments in near term, of close to Rs. 120 crore in the month of Dec-21, Rs. 232 crore in Q4FY22 and Rs.626 crore in FY23. Earlier, the company in Q3FY21, had witnessed similar pressure to clear the dues and accordingly it had to utilize majority of its cash flows towards clearance of cane dues which led to delay in debt servicing in the past. Furthermore, BHSL was expecting sugar policy claim along with interest from UP government aggregating to around Rs 1500 crore (after Allahabad high court termed UP State's suspension of incentives under policy in 2004 to attract investments in Sugar sector "arbitrary") however, same has been delayed due to procedural reasons and there is no certainty on receipt of the claims in near term, and company will therefore be largely reliant on its cash flows for debt servicing and clearance of cane dues.

Substantial investment in group companies

The group has implemented a power project under Bajaj Energy Ltd (BEL) and commissioned a 1,980 MW project under Lalitpur Power Generation Company Limited (LPGCL). BHSL has invested a substantial amount in its group companies by way of investments and loans & advances. Inability of BHSL to recover these advances in a timely manner in the past has led to its poor liquidity position. Recoverability of these advances shall be crucial to improve the liquidity position of BHSL.

Weak financial profile & leveraged capital structure

Total operating income of BHSL remained stagnant and grew marginally by 0.08% to Rs. 6672 crore in FY21 as against Rs. 6667 crore in FY20. Amongst segments, sugar division posted stagnant revenues of around Rs.7148 crore (PY: Rs. 7180 crore), distillery segment posted significant growth of 50% to Rs. 414 crore (PY: Rs. 276 crore) offsetting the degrowth of 2% in

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

revenues from power segment to Rs. 983 crore in FY21 (PY: Rs. 1003 crore). PBILDT margin of the company declined significantly by 421 bps to 2.70% in FY21 as against 6.91% in FY20 majorly attributable to lower margins garnered in distillery segment. Operating margins in distillery segment declined to 3% in FY21 as against 22% in FY20 which is mainly due to major overhauling cost incurred by company to render the machineries fit for higher operating days. Power segment also witnessed significant dip in its operating margin from 5% to 1% mainly due to lower power and steam generation led by lower crushing. Owing to significant decline in profits, interest coverage of the company declined to 0.69x in FY21 as against 1.53x in FY20. Total debt of the company, though reduced, remains high at Rs. 5388 crore (PY: Rs. 5497 crore) as on March 31, 2021. Despite such decline in debt levels, overall gearing (without accounting for the group exposure) as on March 31, 2021 deteriorated to 1.83x as against 1.69x as on March 31, 2020 on account of erosion in net worth due to significant loss of around Rs. 280 crore, posted by the company during FY21. During H1FY22, the company posted degrowth of around 7% in its total operating income to Rs. 2708 crore (PY: Rs. 2917 crore). PBILDT margin improved to 3% in H1FY22 as against 1% in H1FY21 mainly attributable to significant improvement in profitability margins in distillery operations. PBIT margin in distillery operations improved to 10% against losses in previous fiscal. Total debt of the company has reduced to Rs. 4897 crore as on Sep 30, 2021 as against Rs. 5388 crore as on March 31, 2021. Overall gearing, thus improved to 1.68x as on Sep 30, 2021 as against 1.83x as on March 31, 2021, however, remains leveraged.

Cyclical & Regulated nature of sugar business

The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

Key Rating Strengths

Long track record of operations and experienced promoters

The company was incorporated in 1931 under the name - The Hindusthan Sugar Mills Limited (HSML) by Mr Jamnalal Bajaj. Subsequently HSML was renamed as Bajaj Hindusthan Limited in 1988 and changed to the present one in January 2015. The company gradually increased its capacity over the years to become one of the largest sugar producers in the country with aggregate capacity of 1.36 lakh tonne of sugarcane crushed per day (TCD). Mr. Kushagra Nayan Bajaj has considerable experience in the sugar industry and is assisted by a team of professionals having significant experience in the industry.

Diverse Revenue Stream

BHSL is majorly into the production of sugar however it has diversified operations with other business like manufacturing of alcohol and Power, which de-risk the core sugar business of the company to some extent. BHSL has 14 sugar factories with an aggregate capacity of 1.36 lakh tonne of sugarcane crushed per day (TCD). It has six distilleries with capacity to produce 800 kilo litre per day (KLPD) of industrial alcohol and owns co-generation plants having power generating capacity of 449 MW. During FY21, the distillery and power division together contributed around 16% of the gross revenue from operations against 15% in FY20 and 20% in FY19 and rest was from the sugar division. As discussed with the management, due to changes in norms laid down by state pollution control board and NGT (National Green Tribunal), the distilleries of the company could not operate to their optimum capacity in FY20 and alcohol production declined which has increased partly in FY21. Company has now made the necessary modifications and additions in the distilleries and going forward, the unit will run with increased capacity utilization starting from October 2021 and production and sales is expected to be higher from distillery operations this year.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Rating Methodology- Manufacturing Companies](#)

[Rating Methodology- Sugar Sector](#)

About the Company

BHSL, a part of the 'Shishir Bajaj Group', is one of the largest sugar manufacturing companies in the country and also the largest industrial alcohol manufacturer in India. BHSL has 14 sugar factories with an aggregate capacity of 1.36 lakh tonne of sugarcane crushed per day (TCD). It has six distilleries with capacity to produce 800 kilo litre per day (KLPD) of industrial alcohol and owns co-generation plants having power generating capacity of 449 MW. The company also has two Medium Density Fiber Board manufacturing plants with capacity of 1.60 MtCu per annum and one particle board plant of 0.50 lac Mt Cu per annum.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	30-09-2022 (UA)
Total operating income	6,667.00	6,672.56	2708.16
PBILDT	460.73	180.31	88.14
PAT	-105.37	-279.60	-152.43
Overall gearing (times)	1.69	1.83	1.68
Interest coverage (times)	1.53	0.69	0.66

A: Audited, UA: Un-Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2037	4886.24	CARE D
Fund-based - LT-Working capital Term Loan		-	-	-	925.51	CARE D
Non-fund-based - ST-BG/LC		-	-	-	278.83	CARE D

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	4886.24	CARE D	-	1)CARE D (19-Jan-21) 2)CARE B+; Positive (14-Sep-20) 3)CARE B+; Stable (23-Jun-20)	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)
2	Fund-based - LT-Working capital Term Loan	LT	925.51	CARE D	-	1)CARE D (19-Jan-21) 2)CARE B+; Positive (14-Sep-20) 3)CARE B+; Stable (23-Jun-20)	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)
3	Non-fund-based - ST-BG/LC	ST	278.83	CARE D	-	1)CARE D (19-Jan-21) 2)CARE A4 (14-Sep-20) 3)CARE A4 (23-Jun-20)	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
CC	<ul style="list-style-type: none"> Rate of interest is 1 year SBI MCLR + 3.15%
Term Loan	<ul style="list-style-type: none"> Penal interest of 5% p.a. to be charged on default of payment of interest or installment on irregular portion of debt to the bank for the period of such default
B. Non-financial covenants	
CC	<ul style="list-style-type: none"> Statement of accounts regarding position of banks outstanding of all the facilities of all the member banks of the consortium to be submitted on monthly basis.
Term Loan	<ul style="list-style-type: none"> Personal guarantee of Kushagra Nayan Bajaj to be provided as collateral security

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working capital Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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