Dhampur Bio Organics Limited

July 26, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	650.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned
Total bank facilities	**650.00 (₹ Six hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Dhampur Bio Organics Limited (DBOL) derives strength from its experienced promoters with long track record in the sugar industry, forward integrated nature of operations with distillery and cogeneration power divisions mitigating the industry cyclicality to an extent and healthy operating performance with healthy recovery rates. The rating also derives comfort from the comfortable financial risk profile with profitability likely to remain healthy owing to steady sugar realisations and higher volumes from distillery segment and favourable industry outlook.

However, these rating strengths are partially offset by susceptibility of the revenues and profitability to the demand-supply dynamics, susceptibility to agro-climatic conditions, cyclical and highly regulated nature of the industry. That said, going forward, with the expected higher diversion of B-heavy molasses and sugarcane juice towards ethanol production, the sugar inventory levels are expected to decline in the country, resulting in lower volatility in the prices. Furthermore, the continuation of the government's policy in the form of fixing minimum support price (MSP) for sugar and remunerative ethanol prices, will continue to lend support to the industry. DBOL, being an integrated player, remains well-placed to benefit from these developments.

Rating sensitivities

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

- Sustained increase in the scale of operations along with improved revenue and geographic diversification in operations.
- Improvement in the capital structure on a sustained basis, with overall gearing below 0.5x and total debt (TD)/, profit before interest, lease rentals, depreciation and taxation (PBILDT) below 2x.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any significant debt-funded capex or decline in profitability, leading to total debt/PBILDT above 3.5x on a sustained basis.
- Decline in profitability margins, as marked by PBILDT margin below 10%, leading to a moderation in the interest coverage indicators on a sustained basis.
- Adverse changes in the government policies affecting the operations and cash flow of the entity.

Detailed description of the key rating drivers

Key rating strengths

Integrated business model and diversified revenue stream with increasing focus on ethanol to aid inventory management: Post the demerger, DBOL holds the Asmoli, Mansurpur and Meerganj units, which have an aggregate cane crushing capacity of 22,000 tonnes crushed per day (TCD), a distillery of 250 kilo litres per day (KLPD) on C-heavy (31.2KLPD on B- heavy) and a cogeneration unit of 95.50 megawatts (MW), while the other two units, Dhampur and Rajpura (crushing capacity: 23,500 TCD, distillery: 250 KLPD, cogeneration: 121 MW) have been left with DSML.

DBOL's sugar division is fully integrated with forward integration into cogeneration and distillery operations that de-risk the core sugar business of the company to an extent. During FY22 (refers to the period from April 01 to March 31), distillery and power division together contributed 23% (PY: 15%) of the gross revenue from operations and rest from Sugar segment, while they contributed around 75% to earnings before interest and taxes (EBIT) in FY22. Going forward, with additional 100 KLPD, which was operational only for Q4FY22 in the last fiscal year will contribute to full year volumes and profitability in FY23 and going forward. The high contribution from the non-sugar segments bodes well for DBOL's overall profitability as these segments' EBIT margins are relatively stable than those of the sugar segment.

During FY22, the company crushed 38.79 lakh tonnes of cane compared with 41.55 lakh tonnes in FY21 as sugar cane of 1.53 lakh tonnes was diverted towards syrup derived ethanol. The total cane otherwise for FY22, which was available for crushing with DBOL was 40.32 lakh tons. The company's sugar production for FY22 consequently decreased due to two reasons – diversion of some cane to syrup and also production of higher B-heavy for which the net recovery was lower.

During FY22, the company sold 462.76 lakh bulk litres (BL) of ethanol, including ENA, of which 295.85 lakh BL was sold through the B-heavy and 119.60 lakh BL through syrup, with an average realisation of ₹56.07 per litre, which is 8.06% higher than FY21 at ₹51.89 per litre. Cane arrears were nil as on June 30, 2022, as compared with ₹109 crore as on March 31, 2022. Cane arrears are low on account of diversion of sugar to ethanol production, as the ethanol's sales have a quicker collection period.

Furthermore, DBOL has long-term power purchase agreements (PPAs) (20 years) with Uttar Pradesh Power Corporation Ltd (UPCCL) for all its plants. During FY22, around 54% of the power generated was utilised captively and rest sold to the DISCOMS.

Experienced promoters: DBOL is headed by Vijay Kumar Goel and Gautam Goel. VK Goel has been the Chairman of the company and has served as a promoter director since 1960 of Dhampur Sugar Mills Limited (DSML). He has been the President

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

of Indian Sugar Mills Association and the Indian Sugar Export Corporation. With over 60 years of experience in the sugar industry, VK Goel has spearheaded several technological innovations in the industry.
Gautam Goel has been on the Board since 1994. He has been the President of the Indian Sugar Mills Association and Indian Sugar Export Corporation. He has focused on value-addition, which included pioneering the production of sulphur-less refined sugar in India. Gautam Goel is involved with the farmer outreach efforts of the company and is spearheading the sustainability and social governance initiatives.

Comfortable financial risk profile with profitability likely to remain healthy owing to steady sugar realisations and higher volumes from distillery segment: During FY22, the total income of the company decreased by 24% to ₹1,530.20 crore (PY: ₹2,006.77 crore). The sales volumes were also lower in FY22 on account of lower sales quota and the sales were majorly done from the other 2 units of erstwhile DSML of Dhampur and Rajpura. Erstwhile Dhampur got the quota allotted from government; and since DBOL received more refined sugar units (and since refined sugar has a longer shelf life), it was decided amongst the management that they will prioritise the other sugar sale first under the quota allotted in FY22. Hence, DBOL ended with higher sugar inventory vis-à-vis last year. Closing stock of sugar as on March 31, 2022, increased to 2.58 lakh tonnes vis-à-vis stock of 1.98 lakh tonnes as on March 31, 2021. However, in Q1FY23, DBOL sold 1.05 lakh ton of sugar, which was against the complete sugar quota of the company (sales volume in Q1FY22 was 0.85 lakh ton).
Furthermore, the profitability margins improved in FY22 to 11.52% as against 8.07% in FY21. The same was on account of increase in sugar realisation and ethanol realisation. The average sugar realisation increased by 7.53% in FY22 to ₹35.49/kg vis-à-vis ₹33/kg in FY21, while for raw sugar it increased by 25.40% to ₹31.64/kg in FY22 as compared with ₹25.27/kg in FY21. The quantity sold of ENA/ethanol sales increased by 31% in FY22 along with increase in the average realisations, which witnessed a growth of 8.06%.
As on March 31, 2022, the overall gearing increased to 0.94x vis-à-vis 0.52x as on March 31, 2021. The same was on account of increase in the term loan which was taken for the distillery expansion at Asmoli unit and increase in the working capital borrowings due to high inventory. The high outstanding inventory as on March 31, 2022, also resulted in negative cash flow from operations in FY22.

The total debt as on March 31, 2022, stood at ₹832.40 crore, which reduced to ₹782.87 crore as on June 30, 2022. The total debt decreased as on June 30, 2022, primarily on account of decrease in the working capital borrowings which reduced as the inventory was released in Q1FY23. Furthermore, the distillery capex of 100 KLPD at Asmoli became operational only from January 16, 2022. Thus, the contribution to income and PBILDT from the increased capacity was for less than three months, thereby resulting in moderation of other debt coverage indicators like total debt to gross cash accruals (TDGCA) and total debt to PBILDT in FY22, as the distillery contributed only proportionately to the operations (debt was completely loaded). The same will improve with the full year of operation from FY23.
Ethanol demand and realisations have been improving over the past couple of years due to the government's focus on the ethanol blending programme and its effort to control sugar production by incentivising ethanol, which leads to overall inventory management and lower working capital requirements. Furthermore, with no major debt-funded capex planned, the overall gearing is expected to further reduce over the projected years with improvement in the net worth base by accretion of profits.

Operationally efficient sugar mills with healthy recovery rates: The net recovery rates moderated to 9.94% in SY2022 (PY: 10.81%) owing to the higher diversion of cane towards B-heavy molasses-based ethanol. Healthy recovery rates over the years aided in reducing the company's cost of production. Over the medium term, the higher production of ethanol from B-heavy molasses and sugarcane juice is likely to moderate the net recovery rates to some extent amid the continued high share of better-yielding cane variety.

Supportive government policies: Starting 2018-19, the Government of India (GoI) has implemented a slew of measures and supportive mechanisms, providing much-needed support to the industry, which had been witnessing mounting cane arrears and high debt burden. With production and inventory continuing to be high during past few sugar seasons, the GoI continued to exert control on the volume of sugar sold (through the release order mechanism) as well as the pricing (through the enforcement of MSP). The other support offered by the government includes soft loans to clear cane arrears, cane subsidies, transportation subsidies for sugar exports, interest subvention on buffer stocks, and interest subvention schemes for setting up of ethanol capacity.

Favourable industry outlook
On June 5, 2021, the government advanced the ethanol blending target of 20% in petrol by five years, from 2030 to 2025, to reduce pollution and India's dependence on expensive crude oil imports. This move is expected to provide a boost to the sugar industry by encouraging more diversion of sugarcane and sugar towards ethanol, thereby reducing the sugar glut in India. The Ethanol Blending Programme (EBP) aims to increase the ethanol blend level with petrol to 20% by 2025 (advanced from 2030). The blending percentage of 7.6% has been achieved in the current SS on average, with some states like Uttar Pradesh, Maharashtra, Karnataka, Uttarakhand, Bihar, etc, having even achieved higher blending percentage of up to around 10%. With the surplus sugar situation auguring well for the ethanol industry along with the government's support in the recent part in the form of interest subventions for distillery capacity expansion, an aggressive capex is underway already, as around 1,000 crore litres of ethanol is required to achieve the target of 20% blending.
As per the ISMA, 3.4 million tonne of sugar equivalent is estimated to be deviated towards ethanol production using the diversion of sugarcane juice, sugar and sugar syrup, B-heavy molasses and C-heavy molasses. Excluding this sugar diversion towards ethanol, India is estimated to produce 35 million tonne of sugar during SS2021-22 (y-o-y growth of 12.2%). In addition to this,

India has an opening stock of 8.2 million tonne of sugar, which is expected to increase the sugar availability to 41.5 million tonne during the year to meet the domestic requirements and also sugar exports from India.

An increase in crude oil prices due to the Russia-Ukraine crisis is aiding an uptick in ethanol prices. This may influence the diversion of sugarcane towards ethanol and, in turn, global sugar production. However, if India offloads 9 million tonne of sugar, the country will be left with around 7 million tonne of closing stock for the current SS2021-22, which will be sufficient to meet the normative requirements of India for the next sugar season.

Notably, this closing stock will be at a five-year low and much less than the level of closing stock seen in the past three sugar seasons 2017-18 to 2019-20, where the closing stock ranged between 10 and 15 million tonnes. The closing stock for SS2020-21, however, was lower, at 8.2 million tonne. Thus, if India ends SS2021-22 with a reduced closing stock of around 7 million tonne, backed by high sugar exports, the domestic sugar prices are likely to receive support and remain firm amid the expected record-high production of 35 million tonne of sugar during the year.

Key rating weaknesses

Working capital-intensive operations: The sugar industry being seasonal in nature has high working capital requirements during the peak season, which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, ie, sugarcane, and manufacture sugar during this period. DBOL's focus on diverting more sugar to ethanol will be positive for the company, as the manufacturing of ethanol (B-Heavy route) leads to quicker receivables compared with a gradual liquidation of the large sugar inventory spreading across 12-15 months.

Cyclical and regulated nature of sugar business: The industry is cyclical by nature and is vulnerable to the government policies for various reasons, such as 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 and remunerative prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country, and thus, affect the profitability of the sugar companies.

Profitability of Uttar Pradesh-based sugar mills continues to depend on the state government policy on cane prices: DBOL's profitability, along with other Uttar Pradesh-based sugar mills, continues to be vulnerable to the Government of Uttar Pradesh's (GoUP's) policy on cane prices. Cane prices are determined by the GoUP at the start of the crushing season. Thus, the company's performance can be impacted by a disproportionate increase in the cane prices. Furthermore, its profitability remains vulnerable to the government's policies on exports, MSP, and remunerative ethanol prices. However, the recent measures taken by the Central Government and the GoUP support the sugar prices and the liquidity of sugar mills. The continuation of government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. Even as Uttar Pradesh-SAP increased by ₹25 per quintal for the current season, firm realisations, as well as enhanced ethanol volumes, support profits.

Liquidity: Adequate

The liquidity is marked by healthy accruals against the repayment obligations of the company. For FY23, the scheduled repayment obligations are ₹58.46 crore and ₹56.20 crore for FY24. The total cash and equivalents stood at ₹18.55 crore as on March 31, 2022. The cash flow from operations is likely to remain healthy in the medium term with robust profits and a reduction in the inventory levels.

The operating cycle increased in FY22 to 204 days on account of significantly high inventory which increased to 239 days from 166 days in FY21 as the company could not completely liquidate the stock. However, the same has reduced significantly in Q1FY23. As on March 31, 2022, sugar inventory stood at ₹846 crore (1.39 lakh tons valued at average rate of ₹32.77/Kg) and cane arrears stood at ₹109 crore. Subsequently, cane arrears were nil as on June 30, 2022, and inventory stood at 2.15 lakh tons.

Also it is to be noted that the inventory days remain relatively high in comparison to other industries as manufacturing of sugar takes place during November to April, while sales take place uniformly during the complete year and also due to imposition of sales quota on sugar companies, which led to high inventory days. Average utilisation of the working capital facilities for the 12 months ended June 30, 2022 stood at around 51%. The current ratio stood at 1.26x as on March 31, 2022 against 1.41x as on March 31, 2021.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch'
CARE Ratings' policy on Default Recognition
Rating methodology – Manufacturing companies
Rating methodology – Sugar sector
CARE Ratings' methodology for short-term instruments
Liquidity analysis of non-financial sector entities
CARE Ratings' methodology for financial ratios (non-financial sector)

About the company

Dhampur Bio Organics Ltd. was demerged from Dhampur Sugar Mills Ltd (DSML) vide a Scheme of Arrangement approved by the Board of Dhampur Sugar Mills Ltd. on the June 7, 2021. This Scheme of Arrangement was ratified by the NCLT vide its order

dated April 27, 2022. The said order became effective from May 03, 2022. DBOL is one of the leading sugar manufacturers in India with promoters having nearly nine decades of experience in the industry. DBOL's operations are integrated, encompassing the crushing of cane, refining of raw sugar, ethanol production and power generation. The business of DSML (pre-demerger) has been almost equally split between DSML and DBOL to enable succession planning. The shareholders have been given one share of DBOL for every share held in DSML and no cash consideration was involved in the said deal.
DBOL has three plants in western-central Uttar Pradesh, India, which have a combined capacity to crush 22,000 MT of cane per day and produce 2000 MT of refined sugar and 800 MT of raw sugar per day and distillery capacity of 250 KLPD on C-heavy (312.5 KLPD on B-heavy) and cogeneration capacity of 95.50 MW.

Brief Financials (₹ crore)	FY21 (A)*	FY22 (A)	Q1FY23 (UA)
TOI	2006.77	1531.04	NA
PBILDT	161.92	177.11	NA
PAT	87.42	103.62	NA
Overall gearing (times)	0.52	0.94	NA
Interest coverage (times)	3.53	5.89	NA

A: Audited, UA: Unaudited; NA: Not available.
*FY21 financials are restated.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the 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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2025	79.94	CARE A+; Stable
Fund-based - LT-Working Capital Demand loan		-	-	-	75.00	CARE A+; Stable
Fund-based - LT-Cash Credit		-	-	-	495.06	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	**Fund-based - LT-Term Loan**	LT	79.94	CARE A+; Stable				
2	Fund-based - LT-Working Capital Demand loan	LT	75.00	CARE A+; Stable				
3	Fund-based - LT-Cash Credit	LT	495.06	CARE A+; Stable				

*Long term/Short term.

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

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-Cash Credit	Simple
3	Fund-based - LT-Working Capital Demand loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings 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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