Uttam Sugar Mills Limited

September 26, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	785.15 (Reduced from 970.37)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short-term bank facilities	25.00 (Reduced from 37.50)	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total bank facilities	**810.15 (₹ Eight hundred ten crore and fifteen lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The revision in the ratings assigned to bank facilities of Uttam Sugar Mills Limited (USML) takes into account the improved financial risk profile during FY22 (refers to period April 01 to March 31) as characterised by its increased scale of operations and profitability. The ratings factor in the favourable impact of higher domestic and international sugar prices, along with increased distillery volumes from the expanded capacities in FY22 as well as improved ethanol realisations on its profitability and coverage metrics. These operational metrics are expected to remain healthy going forward as well.

The ratings continue to derive strength from its experienced promoters and management team, long track record of operations and forward integration into cogeneration and distillery businesses across UP and Uttarakhand. Its forward integration into distillery and co-generation provides alternate revenue streams and acts as a cushion against the prevalent cyclicality in the sugar business to some extent.

Rating sensitivities

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

- Ability of the company to improve its overall gearing less than 1.2x on sustained basis.
- Improvement in Total debt to EBITDA below 2.20x on a sustained basis.

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

- Any significant debt-funded capex impacting the capital structure such that the overall gearing increases beyond 1.60x on a sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity significantly.
- Decline in profitability of the company marked by decline PBILDT margin below 10% or less on a sustained basis.

Outlook: Stable

Detailed description of the key rating drivers

Key rating strengths

Integrated business model and diversified revenue stream

The company is forward integrated into cogeneration and distillery operations that de-risk its core sugar businessto some extent. USML is having four sugar plants situated at Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, U.P), Khaikheri (Muzaffarnagar, U.P) and Shermau (Saharanpur, U.P) with an overall running capacity of 6,250, 7,000, 4,500 and 6,000 TCD respectively. In the sugar segment, the revenue increased from ₹1,496.57 crore in FY21 to ₹1,632.90 crore in FY22. During FY22, the company has sold 36.97 lac QTL of sugar @ 35.42 per kg and exported 9.71 lac QTL of sugar @ 32.19 per kg as against 37.29 lac Mt @33.14 per kg of sugar sales and exported 9.54 lac QTL @ 25.20/kg in FY21. This was mainly on account of higher realisations in the sugar segment compared to last year and more diversion towards B-Heavy ethanol in FY22 compared to FY21 (increase in B-Heavy ethanol production to 418.15 Lakh BL (82.61%) from 253.41 lakh BL (82.40%) in FY21) leading to higher margins as B-Heavy ethanol is associated with higher profitability.

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

Apart from sugar operations, USML has a bagasse-based cogeneration power plant of 122 MW (64 MW exportable) capacity at all the four sugar factories. The power produced by the cogeneration plants is utilised for running the own sugar mills and surplus power is exported. During FY22, USML produced 2,877.00 lakh kWh units of power (P.Y: 3011.00 lakh kWh). Out of total production, USML exported 1,452.22 lakh KWH units to UPPCL/UPCL for a total amount of ₹57.11 crore in FY22. The per unit realisation from the power segment has improved to ₹3.93 in FY22 (PY: 3.71). The operational metrics of all the segments are expected to remain healthy going forward as well.

Increasing scale of operations along with improving profitability margins

During FY22, the total operating income (TOI) of the company grew by around 12% to ₹2042.64 crore as compared to ₹1,824.77 crore in FY21. The increase in TOI is primarily due to increased sales in the sugar segment and distillery segment. On an absolute basis PBILDT of the company grew by 24.55% Y-o-Y to reach ₹279 crore in FY22 and the PBILDT margin improved from 12.27% in FY21 to 13.66% in FY22 on account of higher realisations from sugar and distillery segment sales. Furthermore, in Q1FY23, the company has reported 34% growth in its TOI from Q1FY22 primarily driven by higher sales from sugar & distillery division and likewise it has achieved PBT of ₹50.70 crore in Q1FY23 as against ₹46.46 crore in 1QFY22. Growth in PBT was lower Vis-à-vis the growth in income primarily due to increase in the cane cost by ₹25 per quintal which increased in sugar season 2021-22. Furthermore, going forward the sugar and distillery operations are expected to register growth in FY23 as well on the back of favourable industry dynamics.

Experienced promoters and management team

The promoter of the company, Raj Kumar Adlakha is a mechanical engineer and has about three-and-a-half decades of experience in the sugar business. Established in 1969, the Uttam Group of companies, provides a broad spectrum of products and services to a wide range of industry verticals, including sugar, power, engineering, chemicals, petrochemicals, cement and infrastructure. The group has competency in executing turnkey engineering, procurement & construction (EPC) projects, especially for sugar factories, power plants and co-generation plants. The Uttam Group (Engineering Division) executes sugar plants and power plants on turney/ EPC basis and has supplied 400+ installations across India, Africa and Southeast Asia. The founder of the group is Uttam Chand Adlakha, father of Raj Kumar Adlakha, who started the group in 1962 for manufacturing spare parts. Raj Kumar Adlakha is assisted by a team of experienced professionals in looking after the overall affairs of the company.

Improved capital structure

There has been an improvement in the capital structure of USML. The total debt has reduced from ₹897 crore as on March 31, 2021 to ₹676 crore as on March 31, 2022 with repayments and as well as prepayment of debt in FY22 (by ₹40 crore over and above the scheduled of ₹140 crore) and with additional 50KLPD distillery which was operational in FY22 the profitability improved significantly contributing to enhanced net-worth base and the overall gearing improved from 2.9x as on March 31, 2021 to 1.5x as on March 31, 2022. Furthermore, out of ₹187 crore long-term debt which is due as on March 31, 2022, ₹125 crore pertains to soft and concessional loans. Total repayment which is due for FY23 is around ₹90 crore out of which due till September 09, 2022 is ₹24 crore but USML has already paid ₹53.71 crore till date and they intend to prepay ₹23 crore over and above the scheduled repayment in FY23 which shall lead to further improvement in the capital structure by FY23-end. Any significant debt-funded capex impacting the capital structure of the company shall remain a key monitorable.

Key rating weaknesses

Working capital intensive operation

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, i.e., sugarcane and manufacture sugar during this period. However, the company is planning to de-risk its model by reducing dependence on sugar. The average working capital utilisation at maximum level for the 12 months period ended May 2022 stood at 79.53%.

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. USML's profitability, along with other Uttar Pradesh / Uttarakhand-based sugar mills, continues to remain vulnerable to the state government's policy on cane prices. Thus, the company's performance can be impacted by disproportionate increase in cane price in any particular year. Furthermore, the profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. In current season, in UP-SAP was increased by ₹25/quintal which can limit the profitability but firmed up domestic prices are likely to offset this risk to some extent. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in the sugar prices is curtailed after the introduction of MSP by the Central Government in June 2018. Furthermore, healthy exports and higher diversion of sucrose towards ethanol in the recent years resulted in favorable demand-supply dynamics in the country, thus resulting in improved realisations currently. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice by the industry is expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and cash flows from the sugar business.

Liquidity: Adequate

The liquidity profile of the company remains adequate with stable cash accruals and cash and bank balance of ₹11.58 crore as on March 31, 2022. The company has term debt repayment of ₹84.82 cr in FY23 and cash accruals are expected to be in the range of ₹180-200 crores in the medium term. The operating cycle of the company remained almost at the previous year levels at around 114 days in FY22. The company has high inventory days as manufacturing of sugar takes place during November to April, while sales takes place uniformly during the complete year and also due to imposition of sales quota on sugar companies which led to high inventory days. The average utilisation of the working capital limits stood high at 79.53% for the past 12 months ending May 2022. The current ratio stood at 0.99x as on March 31, 2022 against 0.94x as on March 31, 2021, however it continues to be below unity on account of high repayments, high working capital borrowings and also on account of high cane dues at year end. The working capital borrowings outstanding as on March 31, 2022, stood at ₹468 crores. USML has Nil cane arrears as on current date.

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

Manufacturing Companies

Sugar

About the company

The erstwhile promoters of the company, M.K. Swarup along with his family members incorporated Associated Sugar Mills Limited on October 4, 1993. Raj Kumar Adlakha along with his family members and associates acquired the company in October 1998. Later, the name of the company was changed to Uttam Sugar Mills Limited (USML).

The company is engaged in the manufacturing of sugar, ethanol and cogenerated power. The company has four sugar plants, out of which, one is located in the state of Uttarakhand and other three in Uttar Pradesh. The company has an aggregate sugarcane crushing capacity of 23,750 TCD (tonnes of cane per day) and cogeneration capacity of 103 MW (around 26% of export to Uttarakhand and 74% to Uttar Pradesh) and Ethanol production capacity of 200 KLPD (kilo litre per day; operational all year) as on June 30, 2022 (out of which 50 KLPD of distillery capex achieved commercial operations from July 03, 2021).

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	1,824.77	2,042.64	607.04
PBILDT	223.82	279.12	77.70

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	1,824.77	2,042.64	607.04
PAT	59.76	134.92	37.60
Overall gearing (times)	2.90	1.50	NA
Interest coverage (times)	2.60	3.73	4.30

A: Audited; UA: Unaudited; NA; Not Available

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 various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term loan		-	-	28/02/2025	125.15	CARE BBB; Stable
Fund-based - LT-Cash credit		-	-	-	660.00	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	25.00	CARE A3+

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	125.15	CARE BBB; Stable	-	1)CARE BBB-; Stable (21-Feb-22) 2)CARE BBB-; Stable (22-Sep-21) 3)CARE BB+; Stable (05-Apr-21)	1)CARE BB+; Stable (06-Apr-20)	-
2	Fund-based - LT-Cash credit	LT	660.00	CARE BBB;	-	1)CARE BBB-; Stable	1)CARE BB+; Stable	-

				Stable		(21-Feb-22) 2)CARE BBB-; Stable (22-Sep-21) 3)CARE BB+; Stable (05-Apr-21)	(06-Apr-20)	
3	Non-fund-based - ST-BG/LC	ST	25.00	CARE A3+	-	1)CARE A3 (21-Feb-22) 2)CARE A3 (22-Sep-21) 3)CARE A4+ (05-Apr-21)	1)CARE A4+ (06-Apr-20)	-

*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-Cash credit	Simple
2	Fund-based - LT-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 instruments: CARE Ratings Limited (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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About us:

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