Bajaj Hindusthan Sugar Limited

June 23, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	6497.99 (7227.13)	CARE B+; Stable [Single B Plus; Outlook: Stable]	Revised from CARE D
Short-term Bank Facilities	278.83 (329.04)	CARE A4 [A Four]	Revised from CARE D
Total Facilities	**6776.82 (7556.17) (Six thousand seven hundred and seventy six crore and eighty two lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings of the bank facilities of Bajaj Hindusthan Sugar Limited (BHSL) takes into account the delay free track record of more than 3 months (since December 10th, 2019) in servicing the debt obligations of the company. The ratings continue to derive strength from BHSL's Long track record of operations, experienced promoters, diverse revenue stream & multi-location manufacturing setup. The ratings are however constrained by its weak financial risk profile & stretched liquidity position, substantial investment in group companies and cyclical & regulated nature of sugar business. As per RBI circular dated March 27 2020 and May 23, 2020, companies can opt for moratorium on their debt obligations for a period of 6 months from March 2020 to August 2020.

Key Rating Sensitivities:

Positives:

- Ability of the company to improve profitability with PBILDT margin beyond 7% and positive PAT margin on a sustained basis
- Timely realization of its investments and loans from its group companies.

Negatives:

- Elongation of operating cycle leading to stretched liquidity profile
- Deterioration in capital structure with overall gearing ratio rising beyond 3.00x on sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile

Total operating income of BHSL registered a Y-O-Y growth of 13% in FY19 (refers to period from April 01 to March 31) on account of increased sugar sales. The PBILDT margin of the company however declined from 7.01% in FY18 to 6.50% in FY19 on account of decreased sugar realization. BHSL has incurred continuous losses in past 2 years resulting in deterioration of its net worth. Net-worth of the company declined from Rs. 3943 crores as on March 31, 2017 to Rs. 3405 crores as on March 31, 2019. Post restructuring of the debt, the interest cost of the company has decreased significantly and interest coverage indicators though improved but remained weak at 1.40x for FY19 as against 0.64x for FY18. Overall gearing of the company improved to 1.77x as on March 31, 2019 (1.94x as on March 31, 2018). During 9MFY20, TOI of the company stood at Rs. 4812.46 crores as against Rs. 4803.38 crores in 9MFY19. PBILDT of the company increased by 177% to Rs. 246 crores in 9MFY20 from Rs. 88.56 crores in 9MFY19 due to reduced losses in sugar segment. Company sold 134.31 lac QTL of sugar during 9MFY20 at an average realisation of Rs. 32.70 per kg. During 9MFY20, company earned GCA of around Rs. 11 crores and repaid debt of around Rs. 514 crores. Further, with lower sugar production in SS19-20, sugar prices are expected to remain firm in FY21. Also, as the distilleries of the company have become compliant with pollution norms, company will increase ethanol production in FY21.

[2]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 stretched liquidity position. The management is however planning to recoup the said advances by planning an IPO in Bajaj Energy limited (BEL) for which a DRHP had already been filed with SEBI on April 05, 2019, however due to adverse market conditions it has been delayed. The funds raised through the said issue will partly be utilized by BEL to purchase the stake of LPGCL from BHSL. The said fund infusion in BHSL will be entirely be utilized for de-leveraging its balance sheet which shall aid in the improvement in its capital structure going ahead. The exact issue size & funds infusion shall however depend on factors like market conditions, valuations, etc

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 & Multi-location manufacturing setup

Though BHSL is majorly into the production of sugar but the company also has incidental business like manufacturing of alcohol and Power, which de-risk the core sugar business of the company to some extent. 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 9MFY20, the distillery and power division together contributed around 12% (18% in 9MFY19 and 20% in FY19) of the gross revenue from operations and rest was from the sugar division.

Multi-location facilities with proximity to sugar cane growing areas of Uttar Pradesh provides abundant supply of sugarcane, expedient crushing of sugarcane within a very short time of harvest ensures a better recovery of sugar and proximity of distilleries to the sugar mill reduces transportation costs (of molasses for alcohol manufacturing). The area of sugarcane sowing in UP is well-irrigated on account of presence in the Gangetic River belt, as a result, the sugarcane crop is relatively less dependent upon the vagaries of monsoons compared to other parts of the country. However, the company is also exposed to geographical concentration risk as all its sugar mills are located in UP and are thereby susceptible to the state government policies.

Liquidity: Stretched

Low sugar realizations in the past due to excess sugar supply in the market has led to stress on the liquidity position of the company and eventually led to past delays in servicing of its debt obligations. However, the restructuring of debt into sustainable and unsustainable part has led to lower interest cost and scheduled repayment of BHSL. Operating cycle of the company stood at -40 days in FY19 as against 5 days in FY18 on account of high creditor days. Creditor days of the company increased to 209 days in 2019 as against 193 days in FY18 and cane arrears of the company increased to Rs. 4074 crores as on March 31, 2020 against Rs.3870 crore as on March 31, 2019. Sugar Stock of the company stood at 88.07 lac QTL as on May 31, 2020, which will be sold during the year to generate cash flow for scheduled debt repayment. Free cash and bank balance as on April 30, 2020 stood at Rs. ~76 crores. Company has availed moratorium period as per RBI guidelines for 6 months i.e. from March 2020 to August 2020 for interest and principal repayment.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Sugar Sector
CARE's methodology for financial ratios (Non Financial sector)
Rating Methodology: Consolidation and Factoring Linkages in Ratings

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)

Particulars	FY18 (A)	FY19 (A)
Total operating income	6161.80	6952.15
PBILDT	431.99	451.84
PAT	-423.19	-64.08
Overall gearing (times)	1.94	1.77
Interest coverage (times)	0.64	1.40

A: Audited

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

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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	5367.01	CARE B+; Stable
Fund-based - LT-Working capital Term Loan	-	-	-	1130.98	CARE B+; Stable
Non-fund-based - ST-BG/LC	-	-	-	278.83	CARE A4

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	5367.01	CARE B+; Stable	-	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Jul-17)
2.	Fund-based - LT-Working capital Term Loan	LT	1130.98	CARE B+; Stable	-	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Jul-17)
3.	Non-fund-based - ST-BG/LC	ST	278.83	CARE A4	-	1)CARE D (30-Jan-20) 2)CARE D (30-Jul-19)	1)CARE D; ISSUER NOT COOPERATING* (06-Apr-18)	1)CARE D (10-Jul-17)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
CC	• Rate of interest is 1 year MCLR + 2.50%
Term Loan	• Penal interest of 2% p.a. to be charged on default of payment of interest or installment to the bank for the period of such default
B. Non-financial covenants	
CC	• 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	• Personal guarantee of Kushagra Nayan Bajaj to be provided as collateral security

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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