Bajaj Hindusthan Sugar Limited (Revised)
September 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1,130.98	CARE B+; Positive (Single B Plus; Outlook: Positive)	Reaffirmed and outlook revised from stable
Long Term Bank Facilities	5,367.01	CARE B+; Positive (Single B Plus; Outlook: Positive)	Reaffirmed and outlook revised from stable
Short Term Bank Facilities	278.83	CARE A4 (A Four)	Reaffirmed
Total Facilities	6,776.82 (Rs. Six Thousand Seven Hundred Seventy-Six Crore and Eighty-Two Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instrument of Bajaj Hindusthan Sugar Limited (BHSL) continues to be constrained on account of its weak financial risk profile & stretched liquidity position, substantial investment in group companies and cyclical & regulated nature of sugar business. The rating, however, derives strength from its long track record of operations, experienced promoters and multi-location manufacturing setup. Further, the rating continues to derive strength from BHSL's diversified revenue profile which continues to provide alternate revenue streams and cushions against the cyclicality of the sugar business to a large extent.
BHSL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020. In the anticipation of the said approval following the regulatory package by RBI some of the scheduled repayments and interest payments were deferred by the company. The moratorium has been approved by the bankers of BHSL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Outlook: Positive
The revision in the outlook for the long term facilities of BHSL from 'Stable' to 'Positive' is on account of CARE's expectation that the operational and financial performance of the company shall improve with the distillery operations stabilizing and expected to operate at a higher capacity as compared to FY20 and further increase in sugar MSP which is likely to enhance the sugar realizations and positively impact the financial profile of the company going forward. The outlook may however be revised back to 'Stable' in case the financial profile of BHSL does not improve as envisaged.

Key Rating Sensitivities:

Positive Factors:
- Improvement in overall operational performance of the company leading to improvement in its financial risk profile.
- Ability of the company to improve its PBILDT margins beyond 7% on a sustainable basis.
- Ability of the company to recoup its advances & investments from the group companies in a timely manner.

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

Negative Factors:

- Any further increase in debt leading to deterioration in the capital structure with overall gearing (without factoring he group exposure) increasing beyond 2x on a sustained basis.
- Any further increase in the exposure towards the group companies leading to stress on the financials profile of BHSL or inability of the company to timely recoup the same.

Detailed description of the key rating drivers

Key Rating Weaknesses

Weak financial risk profile

Total operating income of BHSL has declined marginally by 4% to Rs.6667 crore in FY20 (refers to period from April 01 to March 31) against Rs.6952 crore in FY19 on account of lower sales in distillery and power segment. However, PBILDT margin has improved to 6.91% in FY20 from 6.50% in FY19 majorly on account of higher sugar realization in FY20. Company sold 187 lac QTL of sugar at an average realization of Rs. 32.61 per kg in FY20 as against 195 lac QTL of sugar at an average realization of Rs. 30.65 per kg in FY19. BHSL has incurred continuous losses in past years resulting in deterioration of its net worth. Net-worth of the company declined from Rs. 3405 crores as on March 31, 2019 to Rs. 3254 crores as on March 31, 2020. Post restructuring of the debt, the interest cost of the company has decreased significantly and interest coverage indicators though improved but remained moderate at 1.53x for FY20 as against 1.40x for FY19. Total debt of the company, though decreased, remains high as on March 31, 2020. Total debt decreased from Rs. 6022 crores as on March 31, 2019 and stood at Rs.5497 crore as on March 31, 2020 comprised of long term loans of Rs. 1884 crore, debentures of Rs. 3483.25 crore, loan from related parties of Rs. 118 crore. Overall gearing as on March 31, 2020 improved to 1.69x as against 1.77x as on March 31, 2019 on account of decrease in total debt. During Q1FY21, TOI of the company decreased by ~19% to Rs.1339.12 crore as against Rs.1658.61 crore in Q1FY20 due to lower sales in distillery and sugar segment on account of nationwide lockdown imposed during the period. PBILDT margin also declined marginally to 5.07% in Q1FY21 from 6.90% in Q1FY20 majorly on account lower profitability from all the segments except sugar segment. Total debt of the company stood at Rs.5485 crore as on June 30, 2020 comprised of long term loans of Rs. 1884 crore, debentures of Rs. 3483.25 crore, loan from related parties of Rs. 117.77 crore.

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.

Liquidity: Stretched

The liquidity position of the company remains stretched with continued losses in the past years, high cane arrears and debt repayments. During FY20, company has repaid long term loan of around Rs. 548 crores against scheduled repayment of Rs. 634 crores and availed moratorium on the rest. However, the restructuring of debt into sustainable and unsustainable part has led to lower interest cost and scheduled repayment of BHSL. The current ratio of the company stood at 1.29x as on March 31, 2020 as against 1.33x as on March 31, 2019. Operating cycle of the company stood at -78 days in FY20 as against -40 days in FY19 due to increase in creditor period to 249 days in FY20 from 209 days in FY19 on account of increased cane arrears to Rs. 4074 crores as on March 31, 2020 against Rs.3870 crore as on March 31, 2019. Cane arrears stood at Rs. 3475 crores and sugar stock of the company stood at Rs. 2067 crores (60.79 lac QTL@ 34.00 per Kg) as on July 31, 2020, which will be sold during the year and generate cash flow for scheduled debt repayment. Company has paid last year's cane payment amounting to Rs.1644 crores out of the current sugar sale and similarly, current dues of cane payment will be paid on rolling basis from the sale of sugar of current season and balance payment from the next season sale of sugar stock. Free cash and bank balance as on July 31, 2020 stood at Rs. ~54 crores. Total debt repayment of the company for FY21 after availing 6 months moratorium (March 2020 to August 2020) stood at Rs. 347.45 crores.

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 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. 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 FY20, the distillery and power division together contributed around 15% (20% in FY19) of the gross revenue from operations 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 post Q1FY20 till Q1FY21 and alcohol production declined from 1077 lakh litres in FY19 to 572 lakh litres in FY20. On revenue front, company sold 621.74 lac litres of alcohol @ 41.64 per litre in FY20 as against 1248.41 lac litres of alcohol @ Rs. 40.12 per litre in FY19. 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 2020 and production and sales is expected to be increased significantly this year.
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.

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
Liquidity Analysis of Non-Financial Sector Entities

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	FY19 (A)	FY20 (A)
Total operating income	6952.15	6667.00

PBILDT	451.84	460.73
PAT	-91.60	-149.20
Overall gearing (times)	1.77	1.69
Interest coverage (times)	1.40	1.53

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+; Positive
Fund-based - LT-Working capital Term Loan	-	-	-	1130.98	CARE B+; Positive
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+; Positive	1)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)	1)CARE D (10-Jul-17)
2.	Fund-based - LT-Working capital Term Loan	LT	1130.98	CARE B+; Positive	1)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)	1)CARE D (10-Jul-17)
3.	Non-fund-based - ST-BG/LC	ST	278.83	CARE A4	1)CARE A4	1)CARE D	1)CARE D; ISSUER NOT COOPERATING*	1)CARE D

					(23-Jun-20)	(30-Jan-20) 2)CARE D (30-Jul-19)	(06-Apr-18)	(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

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

Sr. No.	Name of the 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

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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