Dhampur Sugar Mills Limited

March 08, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities – Term Loan	443.78	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Rating Reaffirmed; Outlook revised from Negative to Stable**
Long term Bank Facilities – Fund based	1180.00	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Rating Reaffirmed; Outlook revised from Negative to Stable**
Total	**1623.78 (Rs. One Thousand six hundred twenty three crore & seventy eight lakhs only)**		
Medium-term Fixed Deposit	30.00	**CARE A- (FD); Stable (Single A Minus (Fixed Deposit); Outlook: Stable)**	**Rating Reaffirmed; Outlook revised from Negative to Stable**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for the bank facilities and instrument of Dhampur Sugar Mills Ltd (DSML) takes into account the experienced promoters and management team, long track record of operations and its forward integration into cogeneration and distillery businesses. The rating reaffirmation also draws support from improved capital structure on account of scheduled repayments. It also factors healthy cane crushing & improved recovery rates in FY18. However, these rating strengths are partially offset by moderation in financial risk profile in FY18, current weak scenario of sugar industry due to record sugar production in Sugar Year 2018 (SY2018), the cyclical nature of the sugar industry, working capital intensive nature of operations and regulated nature of the business.

Going ahead, with no major capex being envisaged, the ability of DSML to enhance its profitability and further improve its capital structure amidst highly regulated industry environment shall be the key rating sensitivities.

Outlook: Stable

The revision in outlook from ‘Negative’ to ‘Stable’ factors in the incremental Government support leading to improvement in the domestic sugar prices and also the prices of its by-products, resulting in higher than expected profitability for the mill owners including DSML. Further, DSML is likely to benefit from the increased thrust of government on ethanol given the company’s ethanol production capacity per day at 3,00,000 litres which will further increase to 4,00,000 litres by Apr-19.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record: Mr Vijay Kumar Goel, the Chairman of the company, has served as a promoter director since 1960. The company has been operating in the sugar industry for over seven decades. The managing directors of the company Mr Gautam Goel and Mr Gaurav Goel are the sons of the promoters Mr VK Goel and Mr AK Goel respectively.

Integrated business model and diversified revenue stream: The Company is forward integrated into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent. DSML operates 45,500 tonne crushed per day (TCD) of sugar capacities in UP, which are forward integrated into power and alcohol business with co-generation capacity of 220.5 megawatt (MW) and distillery capacity of 300 kilo litre per day (KLPD). Further, DSML is expanding its distillery capacity by 100 KLPD from 300 KLPD to 400 KLPD which will be completed by April 2019 and thereby support the company in future years providing diversified revenue stream. During FY18, the distillery and power division together contributed around 22.19% of the gross revenue from operations and balance 77.81% was from the sugar division.

Healthy cane crushing & improved recovery rates: The company has reported a substantial increase in cane crushing to an all-time high of 66.20 lakh Ton in FY18 from 54.19 lakh Ton in FY17. The cane crushing also increased to 34.51 lakh Ton in 9MFY19 from 30.78 lakh Ton in 9MFY18. The healthy crushing levels support the forward integrated operations.

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

Furthermore, as a result of varietal change in the cane, there has been consistent improvement in the recovery rates (from 10.94% in FY17 to 11.30% in FY18 in the sugar segment of DSML) which has also led to enhanced production.

Increased thrust of government on ethanol: Government has given interest subvention of 6% on Rs 6,139 crore of loans to sugar mills to create additional capacity to produce ethanol. Currently, 4-5 per cent of ethanol is mixed with petrol as against a target of 10 per cent blending with biofuel. During 2017-18, the total ethanol supplies were 1.40 billion litres. However, as per ISMA, OMC's require 3.3 billion litres of ethanol for blending at 10%. The government is promoting ethanol which will help it to save on the import bill and also helps sugar mills to reduce their dependence on sugar enabling them to clear the cane arrears. To promote ethanol the government has provided interest subvention, increased the price of ethanol, fixed a separate price for B-heavy molasses based ethanol and ethanol from sugarcane juice etc. DSML is positioned to benefit from this given its capex plan to increase its ethanol capacity by 100 KLPD from 300 KLPD to 400 KLPD which is expected to be completed by Apr-19.

Key Rating Weaknesses

Moderation in the financial risk profile in FY18: The total operating income of the company although registered a growth of 33% to Rs 3400.91 crore in FY18 over the previous year primarily driven by the growth in revenues from the sugar segment which got a thrust due to increased volume. The PBILDT margin however declined to 11.52% in FY18 in comparison with 21.55% in FY17 due to inventory write-down, lower sugar price realization and higher cane prices. The overall gearing however improved from 2.11x on 31st Mar 2017 to 1.43x on 31st Mar 2018 due to reduction in total debt and enhancement in the net-worth base on the back of accretion of profits to reserves. In FY18, despite decline in PBILDT margin, PBILDT interest coverage of 3.14x is almost in line with past year of 3.21x primarily due to less interest expense of Rs 129.58 crore as compared to Rs 173.78 crore in FY17 on account of continuous scheduled repayments.
In 9MFY19, DSML reported a total operating income of Rs 1944.21 crore as against Rs 2446.51 crore in 9MFY18 mainly due to decline in sales in sugar segment. However, PBILDT margin increased to 15.40% in 9MFY19 from 14.74% in 9MFY18 on account of better performance in the ethanol/chemical segment due to higher sales volume and better realisation which was partially offset by lower profitability in the sugar segment on account of lower sugar prices.

Working capital intensive operations: 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. Though the company has de-risked their model by reducing dependence on sugar to some extent, the fortune of sugar segment may affect the overall profitability and fund requirement. The average working capital utilization for the twelve months period ended Dec 2018 stood at approximately 77%.

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.

Weak Industry Scenario: The outlook on the domestic demand - supply scenario and the prices remains weak in the medium term given the oversupply situation in the country. The sugar production in the sugar season (SS18) was recorded at 32.3 MT (by ISMA) which is about 59% more than the production achieved in SS17. Due to unexpected surplus sugar availability domestic ex-mill prices have been low which has exerted pressure on the margins of the domestic mill owners. Though the government has taken a number of steps to control the fall in sugar prices such as setting minimum sale price of sugar at Rs 31 per kg and it also increased the ethanol prices to support sugar mills and help them clear payment to farmers. However, continuous Government support shall remain critical for the industry as with high inventory and expected strong production in SS2018-19, the sugar prices will remain under pressure.

Liquidity: DSML has moderate liquidity profile with current ratio of 0.90x in FY18 (PY: 0.97x). Current ratio was low on account of high payables amounting to Rs 501.70 crore related to payment to farmers for sugarcane and lower inventory valuations attributable to lower sugar prices. However, the company does not have any major capex plans. Also, the average working capital utilization for the last twelve months period ended Dec 2018 stood at approximately 77%, thus, the company also has unutilised Cash credit limit which can be used.
Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]

CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

About the Company
As on Dec 31, 2018 DSML's sugarcane crushing capacity stood at 45,500 TCD , co-generated power capacity at 220.5 MW and cumulative ethanol production capacity per day at 3,00,000 litres which will further increase to 4,00,000 litres by Apr-19. The company is having integrated operations comprising of sugar manufacturing, distillery operations and power generation. The presence in these businesses helps the company to partially mitigate the impact of cyclicality in the sugar industry.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2549.64	3400.91
PBILDT	549.47	391.71
PAT	233.40	156.73
Overall gearing (times)	2.11	1.43
Interest coverage (times)	3.21	3.14

A: Audited

Status of non-cooperation with previous CRA:
Not Applicable
Any other information:
Not Applicable

Rating History (Last three years): Please refer Annexure-2

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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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-Cash Credit	-	-	-	1180.00	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	Mar 2026	443.78	CARE A-; Stable
Fixed Deposit	-	10.25%	Aug 2020	30.00	CARE A- (FD); Stable

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	1180.00	CARE A-; Stable	1)CARE A-; Negative (24-Sep-18) 2)CARE A-; Negative (05-Jun-18)	1)CARE A-; Stable (29-Aug-17)	1)CARE BBB+; Stable (27-Mar-17) 2)CARE BBB; Positive (11-Jan-17) 3)CARE BBB- (14-Oct-16)	1)CARE BBB- (22-Jan-16)
2.	Fund-based - LT-Term Loan	LT	443.78	CARE A-; Stable	1)CARE A-; Negative (24-Sep-18) 2)CARE A-; Negative (05-Jun-18)	1)CARE A-; Stable (29-Aug-17)	1)CARE BBB+; Stable (27-Mar-17) 2)CARE BBB; Positive (11-Jan-17) 3)CARE BBB- (14-Oct-16)	1)CARE BBB- (22-Jan-16)
3.	Fixed Deposit	LT	30.00	CARE A- (FD); Stable	1)CARE A- (FD); Negative (24-Sep-18) 2)CARE A- (FD); Negative (05-Jun-18)	1)CARE A- (FD); Stable (29-Aug-17)	1)CARE BBB+ (FD); Stable (27-Mar-17) 2)CARE BBB (FD); Positive (11-Jan-17) 3)CARE BBB- (FD) (14-Oct-16)	1)CARE BBB- (22-Jan-16)
4.	Commercial Paper	ST	-	-	1)Withdrawn (24-Sep-18) 2)CARE A1 (05-Jun-18)	1)CARE A1 (28-Sep-17)	-	-

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