Dhampur Sugar Mills Limited

June 05, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities – Term Loan	391.24	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long term Bank Facilities – Fund based	804.50	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total	**1195.74 (Rs. One Thousand one hundred ninety five crore & seventy four lakhs only)**		
Medium-term Fixed Deposit	30.00	**CARE A- (FD); Negative (Single A Minus (Fixed Deposit); Outlook: Negative)**	Revised from CARE A- (FD); Stable (Single A Minus (Fixed Deposit); Outlook: Stable)
Commercial Paper (CP) issue*	200.00	**CARE A1 (A One)**	Reaffirmed

**carved out of the sanctioned working capital limits of the company.*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for the bank facilities and instruments 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 healthy cane crushing & improved recovery rates in FY18. However, these rating strengths are partially offset by moderation in the financial risk profile in FY18 (refers to the period April 1 to March 31), current weak scenario of sugar industry due to record sugar production in Sugar Year 2018 (SY2018) resulting in sharp decline in domestic sugar prices, 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: Negative

The revision in the outlook from Stable to negative for the long term facilities of DSML factors in the sharp decline in sugar prices on account of record high production in Sugar Year 2018 (SY2018) which has also led to lower than anticipated profitability margins for sugar mills including DSML in Q4FY18. Further, prices are expected to remain subdued in the medium term which is likely to impact the profitability & the coverage indicators going forward. The outlook may be revised to Stable in case any incremental Government support leads to improvement in the domestic sugar prices or reduction in the cane costs, resulting in higher than expected profitability for the mill owners including DSML.

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

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

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 3 kilo litre per day (KLPD). During FY18, the distillery and power division together contributed around 22.19% of the gross revenue from operations.

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 healthy crushing levels would support the forward integrated operations in FY2019. Furthermore, as a result of varietal change in the cane seed, 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) all across the state of Uttar Pradesh which has also led to enhanced profitability.

Key Rating Weaknesses

Moderation in the financial risk profile in FY18: The total operating income of the company registered a growth of 33% in FY18 over the previous year which was primarily driven by the growth in revenues from the sugar segment which got a thrust due to increased volume & stable performance from the other business segments. DSML achieved total income of Rs.3388.89 crore with a PBILDT margin of 11.56% in FY18 in comparison with an operating income of Rs.2547.91 crore & PBILDT margin of 21.45% for FY17. The decline in profitability margin was due to lower sugar price realization and due to higher cane prices. However, in FY18, despite the decline in PBILDT margin, PBILDT interest coverage of 3.14x is stable against past year of 3.19x primarily due to less interest expense of Rs 129.58 Cr as compared to Rs 173.78 Cr in FY17 on account of continuous scheduled repayments.
The overall gearing however improved from 3.13x on 31st Mar 2017 to 2.02x 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.

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 Apr 2018 stood at approximately 93%.

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 ongoing season (SS18) is projected at a record 31 MT (by ISMA) which is about 52% more than the production achieved last year. Due to an unexpected surplus sugar availability of around 31 MT of sugar over and above the required closing balance during the current 2017-18 season, domestic ex-mill prices have crashed and all India average ex-mill sugar price are hovering about Rs.27,000 per MT. The current prices have exerted pressure on the margins of the domestic mill owners in Q4FY18. Though government has taken a number of steps in FY18 to control the fall in sugar prices such as scrapped export duty of 20%, allotted a minimum export quota of 2MT, imposed stock holding limits, raised import duty to 100% on sugar, imposed stock holding limits and announced subsidy of Rs 5.5/quintal to support the sugar prices. However, any incremental Government support which leads to improvement in the domestic scenario of sugar prices shall remain critical for the industry.

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 Mar31, 2018 DSML's sugarcane crushing capacity stood at 45,500 TCD , cumulative ethanol production capacity per day at 3,00,000 litres and co-generated power capacity at 220.5 MW. 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	2547.91	3388.89
PBILDT	546.64	391.73
PAT	242.92	156.73
Overall gearing (times)	3.13	2.02
Interest coverage (times)	3.19	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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	804.50	CARE A-; Negative
Fund-based - LT-Term Loan	-	-	March 2026	391.24	CARE A-; Negative
Fixed Deposit	-	-	-	30.00	CARE A- (FD); Negative
Commercial Paper	-	-	7 to 364 days	200.00	CARE A1

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	804.50	CARE A-; Negative	-	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	391.24	CARE A-; Negative	-	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); Negative	-	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	200.00	CARE A1	-	1)CARE A1 (28-Sep-17)	-	-

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