Dhampur Sugar Mills Limited

October 06, 2020

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long term Bank Facilities – Term Loan	194.29 (reduced from 316.70)	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Long term Bank Facilities – Fund based	1100.00 (1100.00)	**CARE A; Stable (Single A; Outlook: Stable)**	**Reaffirmed**
Total	**1294.29 (Rs. One Thousand Two Hundred Ninety-Four Crore and Twenty-Nine Lakhs Only)**		
Medium-term Fixed Deposit	**30.00**	**CARE A (FD); Stable (Single A (Fixed Deposit); Outlook: Stable)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings for the bank facilities and instrument of Dhampur Sugar Mills Ltd (DSML) takes into account its comfortable financial risk profile characterized by growth in its total operating income & improvement in its capital structure in FY20 (refers to period from April 01 to March 31) and adequate liquidity. The rating reaffirmation also factors in the integrated business model of DSML with sugar, distillery and power divisions. Further, the rating also draws comfort from its experienced promoters and management team and long track record of operations and healthy cane crushing. However, these rating strengths are partially offset by the cyclical nature of the sugar industry, working capital intensive nature of operations and regulated nature of the business.

Rating sensitivities

Positive Factors:

- Ability of the company to increase its scale of operations by more than 20% from its current levels on a sustained basis.
- Improvement in its PBILDT margins to 15% or more on sustained basis.
- Ability to improve the capital structure marked by overall gearing of less than 1x on a sustained basis.

Negative Factors:

- Decline in profitability margins as marked by PBILDT margin below ~10% on a 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 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 400 kilo litre per day (KLPD) in FY20. During FY20, the distillery and power division together contributed around 26% (PY: 31%) of the gross revenue from operations and balance 84% (PY: 79%) was from the sugar division. DSML also produces ethanol using B-heavy molasses and during FY20 it tendered for about 10.5 crore litres of ethanol, of which 4.3 crore litres was produced through B-heavy molasses and the rest from C-Heavy molasses.

Comfortable Financial Risk Profile:

The total operating income of the company increased by ~22% in FY20 amounting to ~Rs 3404 crore as compared to Rs ~2783 crore in FY19. The increase in total income from operations is primarily due to increased sales in the sugar segment during the year. However PBILDT has declined by ~19% to Rs. 413 crores in FY20 from Rs. 507 crores in FY19 on account of

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

decline in profitability from the Power segment in FY20. In Power segment, per unit realization has declined to Rs. 3.12 in FY20 as against Rs. 5.23 in FY19 due to revision of power tariff by UPPCL retrospectively from 1 April 2019 which has led to decline in profitability from the segment. On account of the above mentioned factors, PBILDT margin has declined to 12.13% in FY20 from 18.22% in FY19. However, profitability from sugar segment has improved during the year on account of better sugar realization and with Government now contemplating an increase of Rs 2/kg in the minimum selling price of sugar (MSP) from Rs 31/kg to Rs 33/kg from October 1, 2020, the profitability in the segment is expected to improve further. The cane crushed in FY21 is also expected to be higher than FY20 on the back of higher operational days in Q1FY21 compared to Q1FY20.

Total debt as on 31st Mar 2020 decreased to ~Rs.1752 crores (PY: Rs 1818 crores) with decrease in term loan on account of scheduled debt repayment. Further, the working capital borrowings stood at Rs. 1200 crores as on March 31, 2020 as against Rs. 1139 crores as on March 31, 2019. On account of lower debt and increased net-worth, overall gearing of the company has improved to 1.28x as on March 31, 2020 as against 1.47x as on March 31, 2019. Further with no major capex other than regular maintenance projected for FY21 and FY22 and with further improvement in the net worth base, the overall gearing is expected to further reduce over the projected years.
The total operating income of the company has increased to Rs.1070.72 crore in Q1FY21 against Rs.892.77 crore in Q1FY20; registering a growth of ~20% growth on y-o-y basis. The growth has been driven by increased sales in sugar and Ethanol/chemical segment. During Q1FY21, company has sold 1.81 lac MT of sugar @ 32.18 per kg and exported 0.92 lac MT of sugar @ 21.68 per kg as against 1.68 lac Mt @32.33 per kg of sugar sales and exported 0.59 lac MT of sugar @ 21.21 per kg in Q1FY20. However, PBILDT has declined from Rs. 132 crores in Q1FY20 to Rs. 118 crores in Q1FY21 on account of lower profitability in Power segment. In Ethanol/chemical segment, almost ~91% of ethanol sales is from B-heavy ethanol @ 53.62 per lt in Q1FY21 against ~41% from B-heavy ethanol @ 52.07 per Lt in Q1FY20 which led to improved average realization during the quarter, however overall profitability has declined in this segment due to increased molasses cost in Q1FY21.

Adequate Liquidity:
The liquidity profile of the company remains adequate with stable cash accruals. Operating cycle has improved to 170 days in FY20 as compared to 183 days in FY19 primarily due to decrease in average inventory days from 230 days in FY19 to 203 days in FY20. Sugar inventory stood Rs. 1369 crores (4.66 lac tons valued at ₹ 29.39/Kg) as on March 31, 2020. 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. Average utilization at maximum level stood comfortable at ~78% and has unutilized working capital facility of ~22% available to it as on June 30, 2020. Current ratio stood at 1.07x as on March 31, 2020 against 1.08x as on March 31, 2019. Sugar Inventory stood at Rs. 1220 crores (4.15 lac tons valued at average rate of ₹ 29.42/Kg) as on June 30, 2020 and cane arrears stood at 514 crores as on August 31, 2020. As on June 30, 2020, DSML is carrying buffer stock of around Rs. 273.44 crores (0.88 lac QTL @31.00 per kg). Company had outstanding subsidy receivables of around Rs. 161.45 crores due as on March 31, 2020 majorly on account of MAEQ subsidy on sugar exported (Rs. 128.39 crores), buffer stock subsidy (Rs. 19.59 crores), subsidy on interest subvention under Soft Loan etc. Power dues as on August 24, 2020 stood at Rs. 76.04 crores, these includes dues outstanding for sales made from December 2019 to June 2020. Company has not availed moratorium as per RBI guidelines & has scheduled repayments of Rs 149.66 crore (including prepayment of around Rs 25 crore).

Industry Outlook
For SS 2020-21, India's sugar output is expected to increase by 17.7% y-o-y to 32 million tonnes as per the preliminary estimates released by ISMA. This is likely to aggravate the already surplus sugar supply situation in India. The estimate does not include diversion of cane juice and B-molasses towards ethanol which is expected to result in 1.5 million tonnes of less sugar in sugar year 2020-21. The average domestic sugar prices remained almost stable and were in the range of Rs.33 per kg – Rs.34 per kg during the period October 2019-March 2020 backed by lower sugar output and higher exports for the SS 2019-20. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also aided the stability in prices.
In July 2020 sugar prices improved by 4.7% m-o-m to Rs.33.9 per kg. The prices had also increased 1.6% sequentially in June 2020 as per Wholesale Price Index (WPI). Some recovery in demand from bulk consumers such as restaurants which were allowed to operate (though with various restrictions) is believed to have resulted in the improvement in prices. Sugar prices in June 2020 (at Rs.32.3 per kg) however were 4% lower compared to the average sugar prices of Rs.33.7 per kg in the first 6 months of SS 2019-20 (prior to lockdown). Post lockdown, sugar prices had declined by 0.3% in April 2020 and by another 0.9% in May 2020 on sequential basis as per WPI. Subdued demand from bulk consumers like restaurants, eateries, food services etc. due to imposition of lockdown on account of Covid-19 is believed to have impacted sugar prices during these two months.
The Cabinet Committee on Economic Affairs (CCEA) announced FRP for sugarcane at Rs.285 per quintal for the sugar season (SS) 2020-21 for a basic recovery rate of 10%. This is 3.6% higher than the FRP of Rs.275 per quintal during 2019-20 when it was kept unchanged. The higher cost of sugar production is likely to affect the sugar mills given the current scenario of

sugar industry where surplus sugar supply is already restricting any major growth in sugar prices. Government is also mulling an increase of Rs 2/kg in the minimum selling price of sugar (MSP) from Rs 31/kg to Rs 33/kg from October 1, 2020 which will improve the profitability of the sugar companies in H2FY21.

Key Rating Weaknesses

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 June 2020 stood at approximately ~78%.

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.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
Definition of Default
Rating Methodology-Manufacturing Companies
Rating Methodology-Sugar Sector
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-financial sector entities

About the Company
As on June 30, 2019 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 4,00,000 litres. 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)	FY19 (A)	FY20 (A)
Total operating income	2783.41	3403.63
PBILDT	507.08	412.82
PAT	254.96	211.37
Overall gearing (times)	1.47	1.28
Interest coverage (times)	4.91	3.45

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-Cash Credit	-	-	-	1100.00	CARE A; Stable
Fund-based - LT-Term Loan	-	-	Sep 2027	194.29	CARE A; Stable
Fixed Deposit	-	-	-	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 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-Cash Credit	LT	1100.00	CARE A; Stable	-	1)CARE A; Stable (09-Oct-19)	1)CARE A-; Stable (08-Mar-19) 2)CARE A-; Negative (24-Sep-18) 3)CARE A-; Negative (05-Jun-18)	1)CARE A-; Stable (29-Aug-17)
2.	Fund-based - LT-Term Loan	LT	194.29	CARE A; Stable	-	1)CARE A; Stable (09-Oct-19)	1)CARE A-; Stable (08-Mar-19) 2)CARE A-; Negative (24-Sep-18) 3)CARE A-; Negative (05-Jun-18)	1)CARE A-; Stable (29-Aug-17)
3.	Fixed Deposit	LT	30.00	CARE A (FD); Stable	-	1)CARE A (FD); Stable (09-Oct-19)	1)CARE A- (FD); Stable (08-Mar-19) 2)CARE A- (FD); Negative (24-Sep-18) 3)CARE A- (FD); Negative (05-Jun-18)	1)CARE A- (FD); Stable (29-Aug-17)
4.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (24-Sep-18) 2)CARE A1 (05-Jun-18)	1)CARE A1 (28-Sep-17)

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

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fixed Deposit	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Term Loan	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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name: Ms Ravleen Sethi
Group Head Contact no.: 011- 45333251
Group Head Email ID: ravleen.sethi@careratings.com

Business Development Contact
Name: Swati Agrawal
Contact no. : +91-11-4533 3200
Email ID: swati.agrawal@careratings.com

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