Dhampur Sugar Mills Limited

October 09, 2019

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long term Bank Facilities – Term Loan	316.70 (reduced from 443.78)	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Long term Bank Facilities – Fund based	1100.00 (reduced from 1180.00)	**CARE A; Stable (Single A; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Total	**1416.70 (Rs. One Thousand four hundred sixteen crore & seventy lakhs only)**		
Medium-term Fixed Deposit	30.00	**CARE A (FD); Stable (Single A (Fixed Deposit); Outlook: Stable)**	**Revised from CARE A- (FD); Stable (Single A Minus (Fixed Deposit); Outlook: Stable)**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Dhampur Sugar Mills Ltd (DSML) takes into account improvement in its financial risk profile in FY19 (refers to period from April 01 to March 31) on the back of improved profitability from its chemical/ethanol segment. The rating revision also takes into account the increased distillery capacity of additional 100 Kilo litres per day operational from April 2019 which shall further enhance the performance of the company in the ethanol/chemical segment. The ratings continue to derive strength from its experienced promoters and management team, long track record of operations and forward integration into cogeneration and distillery businesses. The ratings also factors in the healthy cane crushing & improved recovery rates in FY19.

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.

Going ahead, the ability of DSML to enhance its profitability and improve its capital structure amidst the highly regulated industry environment shall continue to remain the key rating sensitivities.

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 increased distillery capacity of 400 kilo litre per day (KLPD) in FY19. During FY19, the distillery and power division together contributed around 31% (PY: 23%) of the gross revenue from operations and balance 69% (PY: 78%) was from the sugar division. DSML also produces ethanol using B-heavy molasses and during FY19 it tendered for about 10.4 crore litres of ethanol, of which 3.7 crore litres was produced through B-heavy molasses and the rest from C-Heavy molasses.

CARE takes into account that against the prevailing tariffs of ~Rs 5.00 to ~Rs 6.75 per unit for the purchase of cogenerated power supplied by sugar mills to UP Power Corporation Limited (UPPCL), the UP Electricity Regulatory Commission (UPERC) has proposed paring the rate by around Rs 2.25 per unit, or by around 35%, for the next five years.

Healthy cane crushing & improved recovery rates: The company has reported a substantial increase in cane crushing to an all-time high of 69.42 lakh Ton in FY19 from 66.20 lakh Ton in FY18. The healthy crushing levels support the forward integrated operations. Furthermore, as a result of varietal change in the cane, there has been consistent improvement in

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

the recovery rates from 11.30% in FY18 to 11.51% in FY19 in the sugar segment of DSML which has also led to enhanced production.

Increased thrust of government on ethanol: 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. With the aggressive government approach to increase the ethanol blending programme to 10% by 2020 and 20% by 2030, sugar companies are witnessing a massive expansion of distillery capacities. Currently, sugar companies are able to supply only 70% of tenders floated by oil marketing companies. DSML is positioned to benefit from this given its increased capacity of ethanol by 100 KLPD from 300 KLPD in FY18 to 400 KLPD in FY19.

Improved financial risk profile: In FY19, PBILDT margins improved to 18.22% from 11.52% in FY18 primarily on account of higher sales and realization from Ethanol/Chemical segment**.** The total operating income of the company decreased by 18.61% from Rs 3400.91 crore in FY18 to Rs.2783.41 crores in FY19 mainly on account of lower sales in the sugar segment due to monthly sales quota allocation by the government to all the manufacturers in the sugar industry as a measure to control its prices. The overall gearing marginally moderated in FY19 to 1.49x as on March 31, 2019. The total debt as on March 31, 2019 though increased to Rs. 1847.96 crores as against Rs.1446.67 crores as on March 31, 2018, primarily on account of working capital borrowings of Rs.1139.31 crores (PY: 927.65 crores) and soft loans taken by the company for cane arrears repayment. Improved PBILDT margin has also led to improved interest coverage of 4.91x in FY19 from 3.14x in FY18.
In Q1FY20, DSML registered 25% growth in its total income from operations to Rs 1076.62 crore as against Rs 883.23 crore in Q1FY19 mainly due to increase in sales from the sugar and ethanol segment. However, PBIT margin declined marginally in Ethanol/Chemical segment on account of decline in average realizations for Chemicals to Rs. 53.1/Kg in Q1FY20 as compared to 64.9/kg in Q1 FY19.

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 July 2019 stood at approximately 72.35%.

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.

Moderate Liquidity: The liquidity profile of the company remains moderate with stable cash accruals and cash and bank balance of Rs. 8.84 crore (includes earmarked deposits of Rs 6.22 crore) as on March 31, 2019. Current ratio improved to 1.03x as on March 31, 2019 against 0.87x on March 31, 2018 on account of increase in inventory. Operating cycle of the company stood at 183 days as on March 31, 2019 with the average inventory days increasing in FY19 to 230 days on account of imposition of sales quota on sugar companies. The maximum average utilization for the 12-month ended July 2019 stood comfortable at 72.35%. Further, the total cane arrears as on September 24, 2019 stood NIL against Rs. 394 crores as on March 31, 2019.

Industry Outlook
For the entire sugar year 2018-19, Indian Sugar Mills Association (ISMA) estimates sugar output to have increased from 32.5 million tonnes in SS18 (refers to period from October to September) to around 33.0 mn tonnes in SS19. Considering these estimates India will have a closing stock of 14.7 million tonnes of sugar at the beginning of the next sugar season which is sufficient to fulfil the requirement of about 5-6 months of country's sugar consumption. This is much more than the normative requirement of 2 months stock that India keeps to avoid any disturbance in sugar supply. However, due to various government regulations, such as increase in minimum sale price of sugar at Rs.31 per kg in Feb 2019 from Rs. 29/kg, the prices are expected to have a support. Other government initiatives such as increase in the ethanol prices to support sugar mills and providing financial assistance to mills to help them clear payment to farmers are also expected to augur well for the industry. Sugar production, though expected to be lower in SS2019-20, is expected to be more than domestic requirement (ISMA). Government policy in respect of SAP, MSP, buffer stock, subsidies, etc., shall be critical.

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 – Manufacturing Companies]
[CARE's methodology for financial ratios (Non Financial sector)]

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)	FY18 (A)	FY19 (A)
Total operating income	3400.91	2783.41
PBILDT	391.71	507.08
PAT	157.16	254.96
Overall gearing (times)	1.43	1.49
Interest coverage (times)	3.14	4.91

A: Audited

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	-	-	2025	316.70	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	1100.00	CARE A; Stable	-	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)	1)CARE BBB+; Stable (27-Mar-17) 2)CARE BBB; Positive (11-Jan-17) 3)CARE BBB- (14-Oct-16)
2.	Fund-based - LT-Term Loan	LT	316.70	CARE A; Stable	-	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)	1)CARE BBB+; Stable (27-Mar-17) 2)CARE BBB; Positive (11-Jan-17) 3)CARE BBB- (14-Oct-16)
3.	Fixed Deposit	LT	30.00	CARE A (FD); Stable	-	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)	1)CARE BBB+ (FD); Stable (27-Mar-17) 2)CARE BBB (FD); Positive (11-Jan-17) 3)CARE BBB- (FD) (14-Oct-16)
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

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Cash Credit	Interest- as per sanction at present at monthly rests or as prescribed by Bank/ RBI from time to time.
2. Term loan	Interest rate of 5% per annum and disbursement by way of transfer in ESCROW account of the company.
B. Non-financial covenants	
1. Cash Credit	Company to submit monthly statement of stocks of stores hypothecated to the bank as on the last day of each month which should be checked by Chief Manager/cheking official alternatively once in a month in a month or more frequently depending upon the nature of the account, physically and with the books of the company. No advances to be made against any unpaid or partly paid stocks.
2. Term loan	The borrower should maintain adequate books of accounts. As per applicable accounting practices and standards which should correctly, reflects its financial position and scale of operations and should not radically change its accounting system without notice to the bank.

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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