

Dhampur Sugar Mills Ltd

September 24, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities – Term Loan	443.78 (391.24)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Long term Bank Facilities – Fund based	1180.00 (804.50)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Reaffirmed
Total	1623.78 (Rs. One Thousand six hundred twenty three crore & seventy eight lakhs only)		
Medium-term Fixed Deposit	30.00	CARE A- (FD); Negative (Single A Minus (Fixed Deposit); Outlook: Negative)	Reaffirmed
Proposed Commercial Paper Issue	-	-	Withdrawn

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 reduced profitability in FY18, current weak scenario of sugar industry due to record sugar production in Sugar Year 2018 (SY2018) resulting in pressure on 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 outlook for the long term facilities and instrument of DSML continues to be Negative in view of any increase in costs (including cane price) not being offset by corresponding increase in sales price of sugar thereby impacting the profitability and further the capital structure of the company. The outlook may be revised to Stable in case any incremental Government support leads to improvement in the domestic sugar prices or the prices of its by-products, 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 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 cogeneration 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 October 2018 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.

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

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, 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.

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 Q1FY19, DSML reported a total operating income of Rs 716.0 crore as against Rs 834.38 crore in Q1FY18 mainly due to decline in sales in sugar segment which was partially offset by improved performance in its other segments.

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 Jul 2018 stood at approximately 88%.

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 32.3 MT (by ISMA) which is about 59% more than the production achieved last year. Due to unexpected surplus sugar availability domestic ex-mill prices have remained low which has exerted pressure on the margins of the domestic mill owners in Q4FY18 and Q1FY19. 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 29 per kg and recently 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.

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 June 30, 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 Oct-18. 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 cyclical 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 for 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.

Analyst Contact:

Name: Gaurav Dixit

Tel: 011-45333235

Mobile: 9717070079

Email: gaurav.dixit@careratings.com

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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-; Negative
Fund-based - LT-Term Loan	-	-	Mar 2026	443.78	CARE A-; Negative
Fixed Deposit	-	10.25%	Aug 2020	30.00	CARE A- (FD); Negative
Commercial Paper	-	-	-	0.00	Withdrawn

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-; Negative	1)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-; Negative	1)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); Negative	1)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)CARE A1 (05-Jun-18)	1)CARE A1 (28-Sep-17)	-	-

CONTACT**Head Office Mumbai****Ms. Meenal Sikchi**

Cell: + 91 98190 09839

E-mail: meenal.sikchi@careratings.com**Ms. Rashmi Narvankar**

Cell: + 91 99675 70636

E-mail: rashmi.narvankar@careratings.com**Mr. Ankur Sachdeva**

Cell: + 91 98196 98985

E-mail: ankur.sachdeva@careratings.com**Mr. Saikat Roy**

Cell: + 91 98209 98779

E-mail: saikat.roy@careratings.com**CARE Ratings Limited****(Formerly known as Credit Analysis & Research Ltd.)**

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com**AHMEDABAD****Mr. Deepak Prajapati**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-9099028864

Tel: +91-79-4026 5656

E-mail: deepak.prajapati@careratings.com**BENGALURU****Mr. V Pradeep Kumar**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91 98407 54521

Tel: +91-80-4115 0445, 4165 4529

Email: pradeep.kumar@careratings.com**CHANDIGARH****Mr. Anand Jha**SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh

Cell: +91 85111-53511/99251-42264

Tel: +91- 0172-490-4000/01

Email: anand.jha@careratings.com**CHENNAI****Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com**COIMBATORE****Mr. V Pradeep Kumar**T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com**HYDERABAD****Mr. Ramesh Bob**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 90520 00521

Tel: +91-40-4010 2030

E-mail: ramesh.bob@careratings.com**JAIPUR****Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 – 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com**KOLKATA****Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com**NEW DELHI****Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com**PUNE****Mr. Pratim Banerjee**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-98361 07331

Tel: +91-20- 4000 9000

E-mail: pratim.banerjee@careratings.com

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