Uttam Sugar Mills Ltd.

April 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities- Fund Based	481.50 (decreased from Rs. 766.55 crore)	**CARE BB+; Stable** (Double B Plus; Outlook: stable)	**Revised from CARE BB-; Positive** (Double B Minus; Outlook: Positive)
Long Term Bank Facilities- Term Loan	348.17 (increased from Rs. 71.12 crore)	**CARE BB+; Stable** (Double B Plus; Outlook: stable)	**Revised from CARE BB-; Positive** (Double B Minus; Outlook: Positive)
Short Term Bank Facilities- Non Fund Based	37.50 (increased from Rs. 29.50 crore)	**CARE A4+** (A Four Plus)	**Revised from CARE A4** (A Four)
Total	**867.17 (Rupees Eight Hundred Sixty Seven Crore And Seventeen Lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Uttam Sugar Mills Limited (USML) takes into account improvement in its financial risk profile in FY19 (refers to period from April 01 to March 31) on the back of enhanced profitability primarily driven from its distillery segment. The rating revision also takes into account the increased distillery capacity of additional 75 Kilo litres per day operational from January 2019 & also ongoing expansion of distillery by 50KLPD which shall further enhance the overall performance of the company. 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 & stable industry outlook.
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 30% or more while maintaining its profitability margins on a sustained basis
- Successful completion of planned capex without any cost over-run and increase in total operating income as envisaged on a sustainable basis.
- Ability of the company to improve its capital structure marked by overall gearing of less than 2.00x on a sustained basis.

Negative Factors

- Increase in Overall gearing beyond 3.50x 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 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 February 2020 stood at approximately 96.25%.

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.

Adequate Liquidity: The liquidity profile of the company remains adequate with stable cash accruals and free cash and bank balance of Rs. 10.44 crore as on March 31, 2019. Operating cycle has increased to 136 days in FY19 as compared to 121 days in FY18. 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 high at 96.25% for past 12 month ending February 2020. Current ratio improved and stood at 0.93x as on March 31, 2019 against 0.85x as on March 31, 2018 due to increase in inventory, it continues to be below unity on account of high repayments & also on account of high cane dues. Cane dues as on March 20, 2020 stood around Rs. 400 crores. Sugar stock as on March 26, 2020 stood at 25.40 lakh QTLS@ 3051 per QTLS valued at Rs. 774.95 crores against Sugar stock as on December 31, 2019 stood at 22.39 lakh QTLS@ 3043 per QTLS valued at Rs. 681 crores. Out of the scheduled repayment for FY20, USML has repaid term loan of around Rs.94.81 crores during 9MFY20. Repayment for FY21 is around Rs. 133 crores.

Ongoing Capex: USML is setting up a new distillery unit at its Libberheri unit with capacity of 50 KLPD with total capex of around Rs. 65 crores out of which Rs. 45.50 crores will be funded through term loan (Soft Loan @5.5%, the same has been sanctioned and around Rs.15 Crores has been disbursed till March 20, 2020) and rest will be funded through internal accruals. Company is also setting up an incineration boiler at its Barkatpur unit with total cost of around Rs. 50 crores out of which Rs. 32 crores (soft loan @5.5%, the same is sanctioned and around Rs.15 Crores has been disbursed till March 20, 2020) will be funded through term loan and rest will be funded through internal accruals. These projects will enable the company to increase its ethanol production and further de-risks its dependence on its sugar segment, both the projects are currently under implementation and is expected to be completed and operational in December 2020. Successful completion of planned capex without any cost & time over-run and USML to be able to enhance its overall performance as envisaged is a key monitorable.

Key Rating Strengths

Improved financial risk profile: During FY19, profitability of the company has significantly improved with PBILDT margins improving from 9.40% in FY18 to 14.51% in FY19. The primary reason for the same is higher sales and profitability from distillery segment. On account of improved profitability; the interest coverage indicators have also improved from 1.51x as on March 31, 2018 to 2.23x as on March 31, 2019. The PBIT in the distillery segment increased from Rs. 2.33 crores in FY18 to Rs. 53.74 crores in FY19 due to higher volume sales and lower molasses prices in FY19. Total operations declined marginally by 3.85% to Rs. 1235.37 crores in FY19 from Rs. 1284.93 crores in FY18 on account of lower sales. This was mainly on account of allocation of monthly sales quota by the government to all the manufacturers in the sugar industry as a measure to control its prices, which was partially offset by increased sale in power and distillery segment in FY19. However, recovery rate in sugar segment improved from ~11.22% in FY18 to ~11.86% in FY19. Total debt as on March 31, 2019 decreased to Rs. 775.05 crore (P.Y: Rs. 835.54 crore) which is primarily attributable scheduled debt repayment and lower working capital borrowings. Subsequently, overall gearing of the company also improved to 3.37x as on March 31, 2019 as compared to 4.83x as on March 31, 2018 due to lower total debt and accretion of profits in net worth of the company.

During 9MFY20 TOI increased by 21.77% to Rs. 1096.72 crores in 9MFY20 from Rs. 900.68 crores in 9MFY19 majorly due to increased sugar sales. Company sold 27.58 lac QTLS of sugar @ Rs 3204 per QTL in 9MFY20 as compared to 24.45 Lac QTLS @ 3163 per QTL in 9MFY19. PBIT from power segment has decreased from Rs. 30.84 crores in 9MFY19 to Rs. 10.69 crores in 9MFY20 due to decrease in power tariff from Rs. 3.48 per unit in 9MFY20 from Rs. 5.08 per unit in 9MFY19 post UPPCL revised the tarrifs. PBIT margin in distillery segment has also declined from 54.70% in 9MFY19 to 32.73% in 9MFY20 due to increased molasses prices from Rs. 54 per QTL in 9MFY19 to Rs. 311 per QTL in 9MFY20.

Experienced promoters and management team: The promoter of the company, Mr Raj Kumar Adlakha is a mechanical engineer and has about three and a half decades of experience in the sugar business. Established in 1969, The Uttam Group of companies, provides a broad spectrum of products and services to a wide range of industry verticals, including sugar, power, engineering, chemicals, petrochemicals, cement and infrastructure. The group has competency in executing turnkey

EPC projects, especially for sugar factories, power plants and co-generation plants. The Uttam Group (Engineering Division) executes sugar plants and power plants on turney/ EPC basis and has supplied 400+ installations across India, Africa and South East Asia. Combined turnover of the group is more than Rs. 1500 crore. The founder of the group is Mr Uttam Chand Adlakha, father of Mr Raj Kumar Adlakha, who started the group in 1962 for manufacturing spare parts. Mr. Raj Kumar Adlakha is assisted by a team of experienced professionals in looking after the overall affairs of the company.

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. During FY19, the distillery and power division together contributed around 17.16% of the TOI and balance 82.84% was from the sugar division. USML is having 4 sugar plants situated at Libberheri (Roorkee, Uttarakhand), Barkatpur (Bijnor, U.P), Khaikheri (Muzaffarnagar, U.P) and Shermau (Saharanpur, U.P) with an overall running capacity of 6250, 7000, 4500 and 6000 TCD respectively. Apart from sugar operations, USML has a bagasse based cogeneration power plant of 103 MW (55.5 MW exportable) capacity at all the four sugar factories. The power produced by the cogeneration plants is utilized for running the own sugar mills and surplus power is exported. During FY19, USML produced 2773.90 lakh kWh units of power (P.Y: 2720.28 lakh kWh). Out of total production, USML exported 1,443.03 Lakhs KWH units to UPPCL/UPCL for a total amount of Rs.73.32 crores in FY19 against 1,442.36 Lakhs KWH for an amount of Rs. 72.74 crores in the FY18. USML also has a distillery unit with installed capacity of 150 kilo litre per day (KLPD) (increased from 75 KLPD in January, 2019) at Barkatpur unit. The ethanol produced therein is being supplied to OMCs (namely HPCL, BPCL, IOCL etc.) at pre-determined prices. Further, it will enable the company to utilize the entire molasses produced and in turn will eliminate the volatility in prices of molasses on company's profitability.

Industry Outlook: Indian Sugar Mills Association (ISMA) estimates sugar production to decline by around 21.6% to 26.5 million tonnes during the sugar season 2019-20 from 33.16 million tonnes during the sugar season 2018-19 on the back of lower total cane acreage. The crop in the two main sugarcane growing States, namely, Maharashtra and Karnataka which contribute around 35 - 40% of country's sugar, have been adversely impacted due to various reasons including lower rainfall, draught and floods in different areas of the states.. The industry is however carrying an all-time high carry over stock of 14.58 million tonnes this year, which is much more than the normative requirement of 2-3 months stock that India keeps to avoid any disturbance in sugar supply. Further, due to COVID-19, there are concerns that the sugar industry might also experience a fall in sugar consumption. Temporary disruptions in the supply chain have been experienced by the millers in the past few weeks, there could be a significant drop in the consumption levels from the usual of 25-26MT as there are curbs on social gatherings, celebrations, weddings, etc. 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.

Analytical approach: Standalone

Applicable criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Rating Methodology-Sugar Sector
Financial ratios - Non-Financial Sector
Criteria for Short Term Instruments

About the Company

The erstwhile promoters of the company, Mr. M.K Swarup along with his family members incorporated Associated Sugar Mills Limited on October 4, 1993. Mr. Raj Kumar Adlakha along with his family members and associates acquired the company in October 1998. Later, the name of the company was changed to Uttam Sugar Mills Limited (USML).
The company is engaged in the manufacturing of sugar, ethanol and cogenerated power. The company has four sugar plants, out of which one is located in the state of Uttarakhand and other three in Uttar Pradesh. The company has aggregate sugarcane crushing capacity of 23,750 TCD (tonnes of cane per day), cogeneration capacity of 103 MW and Ethanol production capacity of 75 KLPD (kilo litre per day) as on March 31, 2018 and is expanded to 150 KLPD from Q3FY19.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1284.93	1235.37
PBILDT	120.76	179.25
PAT	17.00	58.12
Overall gearing (times)	4.83	3.37
Interest coverage (times)	1.51	2.23

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-Term Loan	-	-	FY25	348.17	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	481.50	CARE BB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	37.50	CARE A4+

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-Term Loan	LT	348.17	CARE BB+; Stable	-	1)CARE BB-; Positive (19-Dec-18)	1)CARE BB-; Stable (25-Jul-17) 2)CARE D (20-Jul-17) 3)CARE B; Stable (06-Apr-17)	1)CARE C (25-Apr-16) 2)CARE D (11-Apr-16)
2.	Fund-based - LT-Cash Credit	LT	481.50	CARE BB+; Stable	-	1)CARE BB-; Positive (19-Dec-18)	1)CARE BB-; Stable (25-Jul-17) 2)CARE D (20-Jul-17) 3)CARE B; Stable (06-Apr-17)	1)CARE C (25-Apr-16) 2)CARE D (11-Apr-16)
3.	Fund-based - ST-Term loan	ST	-	-	-	-	1)Withdrawn (20-Jul-17) 2)CARE A4 (06-Apr-17)	1)CARE A4 (25-Apr-16) 2)CARE D (11-Apr-16)

4.	Non-fund-based - ST-BG/LC	ST	37.50	CARE A4+	-	1)CARE A4 (19-Dec-18)	1)CARE A4 (25-Jul-17) 2)CARE D (20-Jul-17) 3)CARE A4 (06-Apr-17)	1)CARE A4 (25-Apr-16) 2)CARE D (11-Apr-16)

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
CC	• Rate of interest is MCLR + 2.45% i.e. 11%
Term Loan (Soft loan)	• Interest on sanctioned loan shall be applicable @5% simple interest per annum
B. Non-financial covenants	
CC	• Primary security: Pledge of warehouse receipts covering sugar stocks in possession of collateral managers appointed by bank
Term Loan (Soft loan)	• Unconditional and irrevocable personal guarantee of promoter to be procvided

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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