Uttam Sugar Mills Ltd.

December 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities- Fund Based	766.55 (increased from Rs.622.78 crore)	**CARE BB-; Positive** (Double B Minus; Outlook: Positive)	**Revised from CARE BB-; Stable** (Double B Minus; Outlook: Stable)
Long Term Bank Facilities- Term Loan	71.12 (decreased from Rs.95.73 crore)	**CARE BB-; Positive** (Double B Minus; Outlook: Positive)	**Revised from CARE BB-; Stable** (Double B Minus; Outlook: Stable)
Short Term Bank Facilities- Non Fund Based	29.50	**CARE A4** (A Four)	**Reaffirmed**
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 ratings assigned to the bank facilities of Uttam Sugar Mills Ltd (USML) continues to take into account the improvement in the operating income, integrated nature of operations. The ratings also takes into account experienced promoters and management team of the company.

The ratings, however, are constrained by company's leveraged capital structure, its working capital intensive business operations and exposure to inherent cyclical and regulated nature of sugar industry.

Going forward, the ability of the company to achieve the envisaged revenue and profitability while effectively managing its working capital requirement along with prospects of the sugar industry shall remain the key rating sensitivities.

Outlook: Positive

The outlook of the rating is "Positive" on account of CARE's expectation of further improvement in operating performance and profitability from distillery and co-generation backed by capex done by USML for expansion in capacity of distillery and improvement in efficiency of co-generation plant in view to reduce the dependence on the profits from sugar segment.

Detailed description of the key rating drivers

Key Rating Strengths

Improved financial risk profile marked by increase in operating income

USML registered 29.33% growth in total operating income in FY18 to Rs. 1,247.93 crore (P.Y: Rs. 1,116.89 crore) at net realization of Rs. 3642 per quintal in FY18 (P.Y: Rs. 3653 per quintal) of which 89% (P.Y: 85%) was from sale of sugar, 6% (P.Y: 5%) from sale of power, 3% (P.Y: 8%) from sale of alcohol/ ethanol and balance 2% (P.Y: 2%) from sale of molasses, bagasse and press mud.

Profitability: The PBILDT margins of USML declined to 9.68% (P.Y: 20.10%) and PAT declined to 1.36% (P.Y: 9.80%) due to marginal decrease in sugar sales realizations and the cane prices has also increased which was not compensated through sugar sales realizations.

Further, due to decline in the sugar prices, inventory valuation was done at a loss of Rs. 146.95 crore in FY18, in line with the mandatory accounting standards (valuation of stock at cost or NRV whichever is lower), by writing down of sugar inventory to NRV.

Solvency: The total debt as on March 31, 2018 increased to Rs. 822. 08 crore (P.Y: Rs. 756.85 crore) which is primarily attributable to additional CC and OD availed by the company during the year. However, with the repayment of term loans, the overall gearing of the company remained at the same level at 4.67x as on March 31, 2018 as compared to 4.77x as on March 31, 2018. With the dip in profits the interest coverage of the company moderated to 1.51x in FY18 (P.Y: 2.97x). The networth of the company improved to Rs.175.85 crore as on March 31, 2018 (P.Y: Rs. 158.60 crore). Debt coverage indicators deteriorated as exhibited by total debt to GCA of 17.35x (P.Y: 5.37x).

H1FY19: During H1FY19, the company substantially liquidated its inventory (13.13 lakh quintal at average realization of Rs. 3137 per quintal) to achieve an operating income of Rs. 521.96 crore as against total operating income of Rs. 713.88 crore in H1FY18 (17.12 lakh quintal at average realization of Rs. 3738 per quintal). On account of mill-wise sales quota imposed by the government to regulate the falling sugar prices there is decline in volume sales. Thus, due to lower

volume sales and lower realizations the company reported reduced profitability amounting to Rs. 24.05 crore (P.Y: Rs. 33.74 crore).
Till Oct-18, USML achieved the operating income of ~Rs. 700 crore.

Segment-wise Revenue (Rs. Crore)	6-months FY19	6-months FY18	% inc/dec
Sugar	494.05	694.29	-28.85%
Cogeneration	31.23	12.10	+158.09%
Distillery	28.28	17.79	+58.96%

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.

Group Companies:	
Sugar Division	Uttam Sugar Mills Limited
Engineering Division	Uttam Industrial Engineering Limited
	Uttam Energy Systems Limited
	Uttam Sucrotech Limited

Mr. Raj Kumar Adlakha is assisted by a team of experienced professionals in looking after the overall affairs of the company.

Integrated nature of operations backed by co-generation and distillery unit

The company has an integrated nature of operations. Fully integrated nature of facility leads to diversification of revenue stream and reduces dependence on the core sugar operations of the company to some extent.
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.
During FY18, the company's sugarcane crushing was highest ever at 368.81 lakh quintals (P.Y: 297.39 lakh quintals) due to higher cane availability. The company had a higher recovery 11.22% in FY18 (P.Y: 10.92%). The increase in recovery rate was mainly due to optimum mix of better varieties and company's continued focus on cane development activities, comprising of varietal replacement with proven high sugared varieties, change in pattern of sowing, ratoon management, encouraging use of bio-fertilizers, bio-pesticides, soil testing activities etc.
Co-generation: 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 FY18, USML produced 3041.42 lakh kWh units of power (P.Y: 2416.30 lakh kWh) due to higher crushing during the year. Out of total production the company exported 1442.36 lakh kWh units to UPPCL/ UPCL for a total amount of 72.74 crore (P.Y: 12.11 lakh kWh for Rs. 60.69 crore) as per the PPA signed with them.
Distillery: USML also has an ethanol distillery with installed capacity of 75 kilo litre per day (KLPD) at Barkatpur unit commissioned in 2012. The ethanol produced therein is being supplied to OMCs (namely HPCL, BPCL, IOCL etc.) at pre-determined prices. In order to reduce the dependence on the sugar cycle the distillery has been expanded to 150 KLPD. Further, it will enable the company to utilize the entire molasses produced and in turn will eliminate the volatility of prices of molasses on company's profitability. It is expected to be commissioned from Dec-18. Most of the formalities with various government departments have been completed for expansion of distillery from 75KLPD to 150KLPD.
Recently, the government has come up with a host of measures to promote the use of biofuels. With increase in capacity of ethanol production benefits are likely to accrue to USML in near future.
During FY18, USML produced 63.15 lakh litres of industrial alcohol (P.Y: 201.12) and sold 93.16 lakh litres for Rs. 36.43 crore (P.Y 206.28 lakh litres for Rs.82.39 crore). During FY18, the operations of distillery was effected mainly due to closure orders issued by Central Pollution Control Board (CPCB) due to which the distillery remained closed for six months.

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. However, the company has continuously worked on to de-risk their model by reducing dependence on sugar by taking following measures:

- Enhancing the capacity of distilleries (to double from its present capacity) and upgradation of existing distilleries by installing incineration boilers due to which the distilleries can run upto 300 days in a year from present 270 days.
- To increase the efficiency of Bagasse based co-generation capacity, USML has installed bagasse dryers.
- *Branded Sugar:* From the last three years USML has entered into various specialy products of sugar which includes bura, brown sugar, table sugar, sachets (both institutional and retail), icing sugar, superfine sugar, pharma sugar, sugar cubes, invert syrup etc. The packaged sugar is already selling in various states and also covers modern retails like Big Bazaar, Kendriya Bhandar, Easy Day, Mother Dairy, Bikanerwala, Britannia, CCD, Rasna, Nestle, Pepsi etc. The branded sugar currently contributes around 10% in total revenues and the company proposes to achieve around 25% revenue from branded sugar in next 3-4 years.

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. The government has hiked the sugarcane price (FRP) by 7.85% to Rs. 275 from Rs. 255 per quintal on a y-o-y basis for the sugar season (SS) 2018-19. In Uttar Pradesh, the SAP for the last season was kept at fixed at Rs. 325/ quintal for early variety of sugarcane and at Rs. 315/ quintal for general variety of sugarcane. Uttar Pradesh SAP for SS2018-19 kept unchanged at the same level. Further, the minimum selling price (MSP) of sugar at mill gate has been fixed at Rs. 29 per kg.

The raw material cost accounts for approx 85% of the total expenses, primary raw material being sugarcane. Considering this, table below provides an idea on sugar production cost:

	Total cost of cane for producing one quintal of sugar (in Rs.)	**Sugar price (in Rs./ quintal) considering raw material cost at 85% of total expenses**	**Cost of producing sugar (in Rs./ kg)**
FRP (SS2018-19)	2,750	3,235	32
SAP (SS2018-19)	3,150	3,706	37

The cost of sugar production is estimated to range between Rs.32-37 per kg. The government has provided financial assistance of Rs.13.88 on per quintal of cane crushed for sugar season 2018-19. This implies an assistance of Rs.1.4 for producing 1 kg of sugar. Thus subtracting this assistance from the cost of sugar production will bring down the manufacturing cost in the range of Rs.31-Rs.36 per kg which again is more than the minimum selling price of Rs.29 per kg.

While the financial assistance of Rs.13.9 per quintal of cane crushed for sugar season 2018-19 will help reduce the cane arrears to some extent, it will not help the sugar mills considerably as it does not bring down the cost of sugar production significantly.

Cyclical nature of sugar business

The industry is cyclical in nature on account of variations in the sugarcane production in the country. The farmers reduce the area under cultivation for sugarcane in the country on delays in sugarcane payments to the farmers by the mill owners. The reduction in area results in lower sugarcane availability thus driving the sugar prices to higher levels. The farmers increase the area under sugarcane cultivation on expectation of higher sugar prices which results in higher sugarcane availability thus driving the sugar prices to lower levels.

The sugar prices in the domestic market remained depressed and declined in most of the months for FY18 and continued till Sept-18. The fall in prices is primarily on account of sugar surplus situation in the global and domestic market.

Industry Prospects and outlook 2018-19

The Indian Sugar Mills Association (ISMA) announced India's sugar estimates for the current sugar season October 2018 - September 2019 at 32 million tonnes.

ISMA also mentioned that the tender for ethanol procurement for SS 2018-19 has been opened by the OMC's, and for the first time there has been a bid for 48.5 crore litres of ethanol from 'B' heavy molasses and 1.84 crore litres from sugarcane juice. Resultantly, this would imply a diversion of around 0.45 to 0.5 million tonnes of sugar into ethanol. Thus, after considering this diversion, sugar production is expected to be around 31.5 million tonnes for 2018-19.

Estimated sugar stock situation in India for 2018-19

	in million tonnes
Opening stock	11.7
Production	(+) 31.5
Total Availability	42.2
Domestic consumption	25.5 to 26
Exports	4 to 5
Closing stock	11.2 to 12.7

- *It is observed, closing stock for the year 2018-19 remains high at 11.2 to 12.7 million tonnes compared to the normative requirement of 3 months stock which is approximately 5-6 million tonnes of sugar that India keeps in order to avoid supply shocks.*
- *The surplus situation, in turn, is expected to keep the prices range bound and they are expected to over in range of Rs.31-Rs.33 per kg during the current sugar season.*

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for Manufacturing Companies
Financial ratios – Non-Financial Sector

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)	FY17 (A)	FY18 (A)
Total operating income	1087.28	1247.42
PBILDT	218.51	120.76
PAT	106.58	17.00
Overall gearing (times)	4.77	4.67
Interest coverage (times)	2.97	1.51

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.*

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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-Term Loan	-	-	Nov-20	71.12	CARE BB-; Positive
Fund-based - LT-Cash Credit	-	-	-	766.55	CARE BB-; Positive
Non-fund-based - ST-BG/LC	-	-	-	29.50	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 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-Term Loan	LT	71.12	CARE BB-; Positive		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)	1)CARE C (20-Apr-15)
2.	Fund-based - LT-Cash Credit	LT	766.55	CARE BB-; Positive	-	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)	1)CARE C (20-Apr-15)
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)	1)CARE A4 (20-Apr-15)
4.	Non-fund-based - ST-BG/LC	ST	29.50	CARE A4	-	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)	1)CARE A4 (20-Apr-15)

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