

October 01, 2021

Dalmia Bharat Sugar and Industries Limited: Long-term rating upgraded, short-term rating reaffirmed and outlook changed to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	419.63	245.00	[ICRA]AA(Stable); Upgraded from [ICRA]AA- (Positive)
Fund Based – Working Capital Facilities	667.50	797.50	[ICRA]AA(Stable); Upgraded from [ICRA]AA- (Positive)
Non-fund Based – Working Capital Facilities	172.50	127.5	[ICRA]A1+; Reaffirmed
Unallocated bank limits	0.00	89.63	[ICRA]AA(Stable)/[ICRA]A1+; long-term rating upgraded from [ICRA]AA- (Positive), short-term rating reaffirmed
Total	1,259.63	1,259.63	
Commercial Paper	700.00	500.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating action for the debt programmes of Dalmia Bharat Sugar and Industries Limited (DBSIL) factors in the expectation of healthy growth in revenues and operating profits, as well as strengthening of debt protection metrics in FY2022. DBSIL's revenue growth would be driven by healthy sugar exports under maximum admissible export quota (MAEQ) of SY2021 and open general licence (OGL) on the back of firmed up global sugar prices, higher distillery volumes and improved domestic sugar realisations. Further, higher sucrose diversion towards B-heavy molasses/juice-based ethanol is expected to result in improved blended distillery realisations, coupled with lower sugar inventory and in turn, lower working capital debt levels. Moreover, DBSIL is in process of expanding its crushing and juice/molasses-based distillery capacities and set up grain-based distilleries, which is likely to strengthen its operational profile and improve revenue diversification.

The ratings continue to factor in DBSIL's geographically diversified operations with a crushing capacity of 36,500 tonnes of cane per day (TCD) across UP and Maharashtra, providing buffer against any agro-climatic fluctuations in any one of the states. Further, its forward integration into distillery and cogeneration provides alternate revenue streams and acts as a cushion against the cyclicity from sugar business to some extent. The ratings also take into account its healthy gross recovery rate at 12.57% in FY2021 (12.38% in FY2020), aided by increased proportion of high-yielding cane in the varietal mix and cane developmental activities undertaken by the company. ICRA notes that the introduction of the minimum support price (MSP) for sugar in FY2019 gives some protection against any downside in the operating profits in sugar surplus years compared to the past. Over the medium term, DBSIL's operating profits are likely to remain less volatile than the historical levels, supported by the expected continuation of MSP and the industry's focus on diverting excess cane towards ethanol production.

Moreover, DBSIL enjoys strong financial flexibility emanating from its strong parentage, as a part of the Dalmia Bharat Limited (DBL) Group and market value of its investments in the latter. Further, the Group's access to low cost funds at a short notice provides comfort.

The ratings, however, remain constrained by the vulnerability of DBSIL's profitability to the cyclical nature of the sugar industry (though the sharp fall in sugar prices is curtailed after the introduction of MSP) and agro-climatic risks related to cane

production. Further, the profitability of sugar mills, including DBSIL, are exposed to the policies of the Government of UP (GoUP) and the Central Government on cane prices, sugar international trade, sugar domestic quota, sugar and ethanol pricing and interest subvention loan for distillery capacity expansion.

The Stable outlook on the rating reflects ICRA's opinion that DBSIL will continue to benefit from its healthy operational profile. Further, ICRA does not expect the debt levels to increase materially despite planned capex, thereby keeping the debt coverage indicators at healthy levels.

Key rating drivers and their description

Credit strengths

One of the top sugar mills in India supported by geographically diversified operations – With 36,500 TCD of sugar capacity, DBSIL continues to be one of the top sugar manufacturers in the country. Further, the company's geographically diversified operations (UP with 24,000 TCD and Maharashtra with 12,500 TCD capacity) are expected to cushion its profits against fluctuation in the operational performance in any of the regions. Additionally, both the states have advantages regarding sugar recoveries and pricing dynamics, with Maharashtra enjoying location-specific advantage for sugar exports.

Forward-integrated operations supported by government policies to provide cushion against cyclicity in sugar business – DBSIL's operations are forward integrated with a co-generation capacity of 119 mega watt (MW) and a distillery capacity of 305 kilo litres per day (KLPD), which provide alternate revenue streams and acts as a cushion against the cyclicity in the sugar business. These two segments accounted for ~24% and ~66% of revenues and profit before interest and tax, respectively, in FY2021. The contribution from the same is expected to increase going forward with the ongoing capacity expansion. The company is in the process of enhancing its distillery and crushing capacities before the start of Q4 FY2022 and SY2023, respectively, resulting in further scale up in operations and strengthening of its operating profile. Additionally, DBSIL's board has approved setting up of two grain-based distilleries, which are likely to become operational in FY2023-FY2024. These expansion plans would reduce the seasonality, to an extent, with the larger distilleries remaining operational throughout the year.

Operationally efficient sugar mills with healthy sugar recovery rates – The gross recovery rate (not factoring in diversion of B-heavy for ethanol production) remains healthy at 12.57% in FY2021, marking an increase from 12.38% in FY2020. This is supported by increased proportion of high-yielding cane in the varietal mix and cane developmental activities undertaken by the company, thus supporting the cost of production. Going forward, over the medium term, though the proportion of high-yielding canes will continue to remain elevated, the higher production of ethanol from B-heavy molasses to avoid sugar glut, is likely to moderate the sugar net recovery rates to an extent. The net sugar recovery rate after the diversion of B-heavy molasses for ethanol production declined to 11.40% in FY2021 (11.63% in FY2020) with higher diversion of cane towards B-heavy molasses in FY2021. However, the same is compensated through higher ethanol production in the distillery segment. DBSIL is expected to divert higher proportion of cane towards juice-based/B-heavy molasses-based ethanol going forward.

Profitability likely to improve due to steady sugar realisations and higher volumes from distillery segment – DBSIL's overall operating profitability and cash accruals are expected to benefit from firm sugar realisations both internationally and domestically, along with better distillery performance in FY2022. Going forward, the company is anticipated to divert higher proportion of cane towards production of ethanol through B-heavy molasses and/or sugarcane juice, once the expanded capacity becomes operational. DBSIL's operating margins will be supported by the likely continuation of MSP, remunerative prices of ethanol and the industry's focus on diverting excess cane towards ethanol production, resulting in improved domestic demand-supply balance. Further, with increase in sugar sacrifice towards B-heavy molasses-based ethanol, the working capital debt and hence the total debt levels are expected to reduce in FY2023-FY2024.

Strong capital structure and healthy coverage metrics – The company's capital structure is conservative with net debt to equity of 0.4 times as on March 31, 2021 (PY: 0.7 times). Improved capital structure and profitability resulted in better coverage

indicators in FY2021 with interest cover of 8.1 times (PY: 4.3 times), net debt to OPBIDTA at 1.6 times (PY: 2.7 times) and DSCR of 2.9 times (PY: 2.3 times). Further, in Q1 FY2022, its interest cover improved to 11.6 times. Going forward, the debt metrics are expected to remain healthy over the medium term, with favourable operating margins, along with a reduction in debt levels.

Credit challenges

Profitability vulnerable to policy interventions by the Government – DBSIL's profitability, along with other sugar mills, continues to remain vulnerable to the GoUP and the Central Government's policy on cane prices. Thus, the company's performance can be adversely impacted by a disproportionate increase in cane price in any particular year. Further, the profitability remains vulnerable to the Government's policies on sugar international trade, domestic quota, sugar MSP, remunerative ethanol prices and interest subvention loan for distillery capacity expansion. The recent measures taken by the Central Government and the GoUP supported sugar prices and the liquidity of sugar mills. The continuation of Government support is likely to prevent the piling up of cane arrears.

Sugar mills remain vulnerable to industry cyclicity and agro-climatic risks – Being an agri-commodity, the sugar cane crop is dependent upon climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. Further, high dependence on a single crop variety may affect the yields and recovery rate. However, DBSIL has been exploring other varieties to mitigate this risk to certain extent. In addition, the cyclicity in sugar production results in volatility in sugar prices. However, the sharp downfall in the sugar prices is curtailed after the introduction of MSP by the Central Government in June 2018. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice-based ethanol will help to curtail the excess supply of sugar, resulting in lower volatility in sugar prices and hence, cash flows from the sugar business.

Liquidity position: Adequate

DBSIL's liquidity position is **adequate** with liquid funds of around Rs. 123 crore as on June 30, 2021. healthy cash flow from operations and an average cushion of around Rs. 370 crore in drawing power during November 2020 to July 2021. ICRA expects DBSIL to comfortably meet its debt repayment obligations in the medium term. However, the company is in the process of expanding its molasses/juice-based distillery and crushing capacities, for which a capex of around Rs. 400 crore is planned over FY2022-FY2023. With respect to the said capex, DBSIL has a sanction of Rs. 270-crore debt (with benefits of interest subvention), of which Rs. 15 crore has been availed till July 31, 2021. Further, a capex of Rs. 250-300 crore is planned towards setting up of the grain-based distilleries over the medium term, which is expected to be funded by a mix of debt and equity in the ratio of around 1:1.

Rating sensitivities

Positive factors – A sustained period of firm sugar prices, driven by favourable demand-supply dynamics, resulting in lower volatility of cash flows from the sugar business and sustained operating profitability and debt coverage metrics, may trigger a rating upgrade.

Negative factors – The ratings can be downgraded if there is any sharp decline in sugar prices, cane crushing volumes, recovery rate or an increase in cane costs; or any significant decline in ethanol realisations or any material change in Government policies that result in moderation of profitability and debt coverage metrics on a sustained basis. The specific metrics that could lead to a downgrade include interest cover below 10 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financial statements of DBSIL; List of entities consolidated are provided in Annexure 2

About the company

Dalmia Bharat Sugar and Industries Limited (erstwhile Dalmia Cement (Bharat) Limited) was established in 1939 at Dalmiapuram in Tamil Nadu. Post demerger, DBSIL operates as an integrated sugar player with a cane crushing capacity of 36,500 tonnes crushed per day (TCD), distillery capacity of 305 kilo litres per day (KLPD) and co-generation capacity of 119 mega watt (MW) (across UP and Maharashtra). The company enjoys benefit of having capacities in two major sugar producing states, i.e. U.P. and Maharashtra.

Key financial indicators (audited)

DBSIL (Consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	2,155.7	2,713.0
PAT (Rs. crore)	193.2	270.3
OPBDIT/OI (%)	17.7%	18.4%
PAT/OI (%)	9.0%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	0.7
Total Debt/OPBDIT (times)	3.3	1.9
Interest Coverage (times)	4.3	8.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of August 31, 2021 (Rs. crore)	Date & Rating in	FY2021	FY2020	FY2019
					Oct 01, 2021	Feb 02, 2021	Jan 06, 2020	Nov 30, 2018
1	Fund Based – Term Loan	Long Term	245.00	245.00	[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
2	Fund Based – Working Capital Facilities	Long Term	797.50		[ICRA]AA (Stable)	[ICRA]AA- (Positive)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)
3	Non-fund Based – Working Capital Facilities	Short Term	127.5		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated bank limits	Long Term/ Short Term	89.63		[ICRA]AA (Stable) / [ICRA]A1+	-	-	-
5	Commercial Paper	Short Term	500.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based – Term Loan	Simple
Fund Based – Working Capital	Simple
Non fund based – Working Capital	Very Simple
Unallocated bank limits	Not Applicable
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be placed	Commercial Paper	-	-	-	500.0	[ICRA]A1+
NA	Fund Based – Term Loan	FY2014-FY2019	3.60%-7.50%	FY2024-FY2032	245.00	[ICRA]AA (Stable)
NA	Fund Based – Working Capital Facilities	-	-	-	797.50	[ICRA]AA (Stable)
NA	Non-fund Based – Working Capital Facilities	-	-	-	127.5	[ICRA]A1+
NA	Unallocated bank limits	-	-	-	89.63	[ICRA]AA (Stable) / [ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis:

Company Name	DBSIL Ownership	Consolidation Approach
Himshikhar Investment Limited	100.00%	Full Consolidation

Source: DBSIL annual report FY2020

Note: ICRA has taken a consolidated view of the parent (DBSIL) and its subsidiaries while assigning the ratings.

ANALYST CONTACTS

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Anupama Arora
+91-124-4545303
anupama@icraindia.com

Suksham Arora
+91-124-4545300
suksham.arora@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)
info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.