October 09, 2023

Dalmia Bharat Sugar And Industries Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based - Term loan	373.33	410.60	[ICRA]AA (Stable); reaffirmed and assigned for enhanced amount
Long term - Fund-based – Cash credit	727.50	872.50	[ICRA]AA (Stable); reaffirmed and assigned for enhanced amount
Short term – Non-fund based - Others	152.50	200.00	[ICRA]A1+; reaffirmed and assigned for enhanced amount
Long term/Short term – Unallocated limits	6.30	-	-
Total	**1,259.63**	**1,483.10**	
Commercial paper^	**500.00**	**500.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

^ Yet to be placed

Rationale

The rating reaffirmation takes into account Dalmia Bharat Sugar and Industries Limited's (DBSIL) operationally-efficient sugar mill operations with a healthy gross recovery rate of 12.84% in FY2023 (12.48% in FY2022), aided by high-yielding cane in the varietal mix and the cane developmental activities taken by the company coupled with the forward-integrated operations. The ratings continue to factor in DBSIL's geographically diversified operations with a crushing capacity of 37,150 tonnes of cane per day (TCD) across UP and Maharashtra, providing buffer against agro-climatic fluctuations in any one of the states. Further, the company's credit metrics remain strong and the debt levels are expected to remain comfortable based on sucrose diversion towards B-heavy molasses/juice-based ethanol and the resultant lower sugar inventory along with the recent operationalisation of a 110-KLPD grain-based distillery. The company's revenue will be driven by enhanced distillery volumes and stable domestic sugar realisations. DBSIL's board has also approved the setting up of an additional grain-based distillery, which is likely to become operational in FY2024, providing a boost to revenues, profits and cash accruals over the medium term.

ICRA notes the scale-up in its distillery operations in the past two years coupled with the cogeneration that provides alternative revenue streams and acts as a cushion against the cyclicality of the sugar business to some extent. With higher distillery revenues, the seasonality has reduced to a considerable extent, while increased diversion towards ethanol production has led to lower sugar inventory, thereby improving the overall working capital intensity of the company. ICRA notes that the minimum support price (MSP) for sugar since introduction in FY2019 limited the downsides in the operating profits in the sugar surplus years compared to the past, though sugar prices have been higher than the MSP in the last three fiscals. Moreover, DBSIL enjoys strong financial flexibility from being a part of the Dalmia Bharat Limited (DBL) Group and the market value of its investments in the latter.

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 has been curtailed after the introduction of MSP) and the agro-climatic risks related to cane production. Further, the profitability of sugar mills, including DBSIL, is 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 the planned capex, keeping the debt coverage indicators at healthy levels.

Key rating drivers and their description

Credit strengths

One of the top sugar mills in India; geographically diversified operations - DBSIL has a sugar capacity of 37,150 TCD and continues to be one of the top sugar manufacturers in the country. Further, the company's geographically diversified operations (UP with 24,650 TCD and Maharashtra with 12,500 TCD capacity) are expected to cushion its profits against the fluctuation in operational performance in any of these regions. Additionally, both the states have advantages in 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 cyclicality in sugar business - DBSIL's operations are forward integrated with a co-generation capacity of 126 mega watt (MW) and a distillery capacity of 710 kilo litres per day (KLPD), which provide alternative revenue streams and act as a cushion against the cyclicality in the sugar business. These two segments accounted for ~32% and ~48% of the revenues and profit before interest and tax, respectively, in FY2023. The contribution from them is expected to increase going forward with the recent and ongoing capacity expansion. The company has recently enhanced its distillery capacity to 710 KLPD from 600 KLPD, further scaling up the operations and strengthening the operating profile. Additionally, DBSIL's board has approved enhancement of grain-based distillery, which is likely to become operational in FY2024. These expansion plans will 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 the diversion of B-heavy for ethanol production) remains healthy at 12.84% in FY2023. This is supported by the increased proportion of high yielding cane in the varietal mix and the cane developmental activities taken by the company, supporting the cost of production. Going forward, over the medium term, though the proportion of high-yielding canes will remain elevated, higher production of ethanol from B-heavy molasses/juice to avoid sugar glut is likely to moderate the net sugar recovery rate to an extent. The net sugar recovery rate after the diversion for ethanol production declined to 8.88% in FY2023 (PY: 9.23%) mainly due to the diversion towards ethanol from sugar juice which was nil in the previous fiscal.

Profitability likely to remain healthy due to firmed up sugar realisations and higher volumes from distillery segment – DBSIL's overall operating profitability and cash accruals are expected to remain comfortable from firm sugar realisations, both internationally and domestically, along with enhanced distillery performance. Going forward, a higher proportion of ethanol produced through grain-based distillery, after the expanded capacity becomes operational, is expected to support the profitability of the company. 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, resulting in improved domestic demand-supply balance. Further, with the increase in sugar sacrifice towards ethanol, the working capital debt and hence the total debt levels are expected to remain comfortable in FY2024-FY2026.

Strong capital structure and healthy coverage metrics – The company's capital structure remains comfortable with net debt to equity of 0.2 times as on March 31, 2023 (PY: 0.3 times). A healthy capital structure and profitability resulted in comfortable coverage indicators in FY2023 with interest cover of 12.0 times (PY: 12.6 times), net debt to OPBIDTA at 0.6 times (PY: 1.4 times) and DSCR of 4.5 times (PY: 5.4 times). Going forward, the debt metrics are expected to remain healthy over the medium term, with favourable operating margins, along with a reduction in the debt levels.

Credit challenges

Profitability vulnerable to policy interventions by the Government – DBSIL's profitability, along with other sugar mills, continues to be 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 prices 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 continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. However, the UP state-advised price (UP-SAP) was revised upwards by Rs. 25/quintal for SY2022 and continued to be the same for SY2023; while the fair remunerative prices (FRP) increased by Rs. 15/quintal for SY2023 and Rs. 10/quintal in SY2024, which could limit profitability. Nevertheless, firmed up domestic prices and increased contribution from ethanol supplies are likely to offset this risk to some extent for integrated sugar mills.

Sugar mills remain vulnerable to industry cyclicality and agro-climatic risks - Being an agri-commodity, the sugarcane crop is dependent on 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 yield and recovery rate. However, DBSIL has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclicality in sugar production results in a volatility in sugar prices. However, the sharp downfall in sugar prices has been 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: Strong

DBSIL's liquidity position is strong with cash and bank balance of around Rs. 169.0 crore as on March 31, 2023 in addition to the cushion available from working capital limits with low utilisation in the past 6 months ended July 2023. ICRA expects DBSIL to comfortably meet its debt repayment obligations in the medium term with healthy cash flows from operations. However, the company is in the process of setting up grain-based distilleries with a capex of Rs. 154 crore over the medium term, which is expected to be funded by a mix of debt and internal accruals in the ratio of around 2:1.

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 an upgrade.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology for Entities in the Sugar Industry Corporate Credit Rating Methodology
Parent/Group support*	Not Applicable

Consolidation/Standalone	ICRA has considered the standalone financial statements of DBSIL

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 37,150 tonnes crushed per day (TCD), distillery capacity of 710 kilo litres per day (KLPD) and co-generation capacity of 126 mega watt (MW) (across UP and Maharashtra). The company has the benefit of having capacities in two major sugar producing states, i.e. U.P. and Maharashtra.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	3,032.1	3,268.2
PAT	295.7	248.3
OPBDIT/OI	14.5%	13.9%
PAT/OI	9.8%	7.6%
Total outside liabilities/Tangible net worth (times)	0.6	0.4
Total debt/OPBDIT (times)	1.9	1.0
Interest coverage (times)	12.6	12.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Oct 09, 2023	Feb 28, 2023	Feb 24, 2022	Oct 01, 2021	Feb 02, 2021
1	**Term loan**	Long term	410.60	400.0	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**
2	**Cash credit**	Long term	872.50	--	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA- (Positive)**
3	**Non-fund based - Others**	Short Term	200.00	--	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	**Unallocated limits**	Long term/Short term	-	--	-	**[ICRA]AA (Stable)/[ICRA] A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	**[ICRA]AA (Stable)/ [ICRA]A1+**	-
5	**Commercial paper**	Short term	500.00	--	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Cash credit	Simple
Non-fund based – Others	Very Simple
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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term - Fund-based – Term loan	FY2018-FY2023	5.00%-7.20%	FY2025-FY2033	410.60	[ICRA]AA (Stable)
NA	Long term - Fund-based – Cash credit	-	-	-	872.50	[ICRA]AA (Stable)
NA	Short term – Non-fund based -Others	-	-	-	200.00	[ICRA]A1+
Yet to be placed	Commercial paper	-	-	-	500.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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