October 30, 2024

Dalmia Bharat Sugar and Industries Limited: Long-term rating reaffirmed; short-term rating reaffirmed and withdrawn for bank facilities and reaffirmed for Commercial Paper

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based – Term loan	410.60	285.17	[ICRA]AA (Stable); reaffirmed
Long term - Fund-based – Cash Credit	872.50	872.50	[ICRA]AA (Stable); reaffirmed
Short term – Non-fund based - Others	200.00	-	[ICRA]A1+; reaffirmed and withdrawn
Total	**1483.10**	**1157.67**	
Commercial Paper	**500.00**	**500.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

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 12.45% in FY2024 (12.84% in FY2023), 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 41,950 tonnes of cane per day (TCD) across Uttar Pradesh and Maharashtra, providing buffer against agro-climatic fluctuations in any one of the states.

Further, the rating draws comfort from the strong financial profile of the company with comfortable debt coverage metrics and expectation of maintaining a low leverage level supported by sucrose diversion towards B-heavy molasses/juice-based ethanol and the resultant lower sugar inventory along with support from 250-KLPD grain-based distillery. The company's revenue will be driven by enhanced distillery volumes and stable domestic sugar realisations. Further, the company has restarted operations at Baghauli Sugar and Distillery Limited (BSDL) with 3500 TCD capacity post-acquisition in March 2024 and plans to set-up additional 100 KLPD grain-based distillery in BSDL, which is likely to become operational by FY2025-end. This will support growth in 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 an extent. However, in FY2024, post capping of sugar diversion for ethanol production, the working capital intensity increased sharply due to higher sugar inventory levels. Nevertheless, in FY2025, working capital intensity is expected to improve with removal of cap on sugar diversion for ethanol production in August 2024. 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 minimum support prices (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 short-term rating for the non-fund based limits has been reaffirmed and withdrawn, in line with ICRA's policy on withdrawal and at the request of the company.

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 41,950 TCD and continues to be one of the top sugar manufacturers in the country. Further, the company's geographically diversified operations (UP with 29,450 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 138 mega watt (MW) and a distillery capacity of 850 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 ~39% and ~42% of the revenues and profit before interest and tax, respectively, in FY2024. 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 850 KLPD from 710 KLPD, further scaling up the operations and strengthening the operating profile. Additionally, DBSIL's board has approved the setting up of an additional 100 KLPD grain-based distillery in BSDL, which is likely to become operational by FY2025-end. 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 12.45% in FY2024. 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.

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 along with enhanced distillery performance. This 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 FY2025-FY2026.

Strong capital structure and healthy coverage metrics – The company's capital structure remains comfortable with net debt to equity of 0.3 times as on March 31, 2024 (PY: 0.1 times). Healthy capital structure and profitability resulted in comfortable coverage indicators in FY2024 even though the debt levels had sharply increased due to higher inventory. The company had interest cover of 8.5 times (PY: 12.0 times), net debt to OPBIDTA at 2.1 times (PY: 0.6 times) and DSCR of 3.6 times (PY: 4.5 times). Going forward, the debt coverage metrics will continue to remain healthy and improve compared to FY2024 due to expected reduction in the working capital debt utilisation due to removal of cap on sugar diversion for ethanol production supported by favourable operating margins.

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, diversion towards ethanol 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. 20/quintal for SY2024; while the fair remunerative prices (FRP) increased by Rs. 10/quintal for SY2024 and Rs. 25/quintal in SY2025, 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. 529.1 crore as on March 31, 2024 in addition to the cushion available from working capital limits with low utilisation in the past three months ended August 2024. ICRA expects DBSIL to comfortably meet its debt repayment obligations in the medium term with healthy cash flows from operations. The company is in the process of setting up grain-based distilleries and expanding its sugar capacity with a capex of Rs. 200 crore over the medium term, which is expected to be funded by a mix of debt and internal accruals.

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 along with improvement in 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 coverage ratio below 10 times on sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Sugar Corporate Credit Rating Methodology Policy on Withdrawal of Credit Rating
Parent/Group support	Not Applicable

Consolidation/Standalone	ICRA has considered the consolidated 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 41,950 tonnes crushed per day (TCD), distillery capacity of 850 kilo litres per day (KLPD) and co-generation capacity of 138 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)

Consolidated	FY2023	FY2024
Operating income	3,268.2	2,915.7
PAT	248.3	272.5
OPBDIT/OI	13.9%	14.7%
PAT/OI	7.6%	9.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.8
Total debt/OPBDIT (times)	1.0	3.3
Interest coverage (times)	12.0	8.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Oct 30, 2024**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Term loan	Long Term	285.17	**[ICRA]AA (Stable)**	Oct 09, 2023	[ICRA]AA (Stable)	Feb 28, 2023	[ICRA]AA (Stable)	Oct 01, 2021	[ICRA]AA (Stable)
								Feb 24, 2022	[ICRA]AA (Stable)
Cash Credit	Long Term	872.50	**[ICRA]AA (Stable)**	Oct 09, 2023	[ICRA]AA (Stable)	Feb 28, 2023	[ICRA]AA (Stable)	Oct 01, 2021	[ICRA]AA (Stable)
								Feb 24, 2022	[ICRA]AA (Stable)
Non-fund based - Others	Short term	200.00	**[ICRA]A1+; reaffirmed and withdrawn**	Oct 09, 2023	[ICRA]A1+	Feb 28, 2023	[ICRA]A1+	Oct 01, 2021	[ICRA]A1+
								Feb 24, 2022	[ICRA]A1+

Unallocated Limits	Long Term/Short Term	-	-	Oct 09, 2023	-	Feb 28, 2023	[ICRA]AA (Stable)/[ICRA]A1+	Oct 01, 2021	[ICRA]AA (Stable)/[ICRA]A1+
								Feb 24, 2022	[ICRA]AA (Stable)/[ICRA]A1+
Commercial Paper	Short term	500.00	**[ICRA]A1+**	Oct 09, 2023	[ICRA]A1+	Feb 28, 2023	[ICRA]A1+	Oct 01, 2021	[ICRA]A1+
								Feb 24, 2022	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Term loan	Simple
Long term - Fund-based – Cash Credit	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	285.17	[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+; reaffirmed and withdrawn
Yet to 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:

Company Name	Ownership	Consolidation Approach
Dalmia Bharat Sugar and Industries Limited	100.00% (rated entity)	Full Consolidation
Baghauli Sugar and Distillery limited	100%	Full Consolidation

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About ICRA Limited:

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