

August 30, 2019

Balrampur Chini Mills Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	1200.00	1200.00	[ICRA]A1+; Outstanding
Fund-based -Term Loan	387.63	387.63	[ICRA]AA (Stable); Reaffirmed
Fund-based - Working Capital Facilities	2053.00	1903.00	[ICRA]AA (Stable); Reaffirmed
Fund-based - Working Capital Facilities	-	150.00	[ICRA]AA(stable)/[ICRA]A1+; Reaffirmed
Non-fund Based-Working Capital Facilities	(155.00)^	(155.00)^	[ICRA]A1+; Reaffirmed
Total	3640.63	3640.63	

*Instrument details are provided in Annexure-1; ^sublimit of fund based

Rationale

The rating action factors in BCML's integrated nature of operations and comfortable financial risk profile as reflected by a conservative capital structure and healthy debt coverage indicators with long term debt to OPBDITA of 0.54 time and interest cover of 16.9 times respectively during FY2019. While the total debt had increased during FY2019, the same was primarily due to soft loans availed at a low interest rate under Central/State Government schemes. The debt also includes interest free working capital loans availed on account of maintenance of buffer stock. In the current year, while the expected lower power tariff will impact the Co-gen division, the overall operating profitability is expected to remain healthy, driven by better performance of distillery segment as well as recent announcement of export subsidy of Rs 10.44/kg of sugar export for SY2020. The debt coverage indicators are also expected to remain healthy. The long-term rating, however, continues to be constrained by the cyclical nature of the sugar industry, and the agro-climatic risks related to cane availability. The ratings also take into account the regulatory risks associated with the sugar industry, being susceptible to sudden changes in government policies, although ICRA notes that recent interventions by both the Central Government and State Government, which included revision in minimum support prices, interest subvention loans for ethanol expansion, cane subsidy, soft loans and recently announced export subsidy, have supported the sugar industry and benefited integrated sugar producers like BCML. Substantial increase in production during SY2018 weighed on prices in FY2019. In SY2019, the sugar production is estimated to remain high at around 32.9 million MT, thus resulting in an increase in carryover stocks, which is likely to continue to have a negative sentiment on prices. However, the sugar release mechanism, sugar exported during FY2019 as well as expected lower production for SY2020 has resulted in some increase in sugar prices recently. In addition, BCML's forward integration into cogeneration and distillery businesses continue to provide cushion against cyclicity in the sugar business. Higher prices for ethanol coupled with increase in distillery production would lead to higher profits from the distillery division. The new capacity of 160KLPD is under implementation, which would further strengthen the operating profile of the company. Consequently, the cash flows of the company would remain comfortable relative to debt servicing and the financial flexibility emanating from a conservative capital structure.

Outlook: Stable

The “Stable” outlook is underpinned by the highly integrated nature of operations, with presence in distillery and co-generation, which supports the overall cashflows of the company. Cashflows from the distillery and cogeneration business provides cushion against the cyclical cashflows of the sugar business. ICRA expects BCML’s cashflows to remain comfortable relative to debt service obligations going forward. The outlook may be revised to “Positive” if there is a sustained period of firm sugar prices and/or the pricing of sugarcane is formally linked to sugar realisations thus resulting in lower volatility of cashflows from the sugar business. The outlook may be revised to “Negative” if there is a prolonged period of soft sugar realisations, thus having a material impact on the profitability of the core sugar business over an extended basis.

Key rating drivers

Credit strengths

Integrated nature of operations continues to provide cushion against cyclical nature in the sugar business and agro-climatic risks related to cane availability and recovery rates - BCML is one of the largest sugar producers in the country with sugar operations comprising ten sugar mills based out of Uttar Pradesh with a combined capacity of 76,500 TCD of sugarcane, which provides it with economies of scale. The operations are highly forward integrated with the company having 360-KLPD distillery capacity and 165.2 MW of saleable cogeneration capacity at present. The company is in the process of setting up an additional 160 KLPD distillery, which is expected to be operational by the end of CY2019. The integrated operating profile provides cushion against cyclical nature in the sugar business. BCML remains exposed to the cyclical nature of the sugar industry, and the agro-climatic risks related to cane availability.

Increased proportion of high-yielding canes to support the recovery rates of the company - Recovery rates for BCML have witnessed an improvement due to varietal change of sugarcane with developmental activities being undertaken by the company, leading to an improved cost of production. During FY2019, the recovery rates had improved to 11.58% as against 10.84% achieved during FY2018, owing to benefit from a varietal change with higher proportion of recovery cane available. This is primarily due to cane development activities which the company has carried out. 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, is likely to moderate the recovery rates to an extent. However, the same is likely to be compensated through higher production in the distillery segment.

Conservative capital structure and healthy debt coverage indicators - The capital structure of the company is conservative with a debt to equity of 0.85 times as on 31st March 2019. Almost 80% of the debt was on account of working capital loans implying a long-term debt to equity of 0.18 times. Long term debt as on 31 March 2019 is around Rs 376 crore, the increase being on account of soft loans availed in November 2018 under the scheme announced by the GoUP. Such loans carry a low interest rate of ~5% (since the loan enjoy interest waiver / subvention). Healthy profitability and reduced interest burden, given pre-payment, has resulted in strong coverage indicators for the company with interest Cover of 16.9 times and DSCR (excl short term / prepayments) of 3.90 times in FY2019. The debt coverage indicators are also expected to remain healthy during FY2020.

Credit challenges

Profitability of Uttar Pradesh-based sugar mills continues to remain vulnerable to the State Government's policy on cane prices - BCML's profitability, along with other Uttar Pradesh-based sugar mills, continues to remain vulnerable to the Government of Uttar Pradesh's policy on cane prices. The cane price and subsidies (if any) are determined by the GoUP at the start of the crushing season. Thus, the performance of the company can be impacted by a disproportionate increase in cane price in any particular year.

Cyclicality inherent in the sugar business; increased production in SY2018 has weighed on prices, although Government intervention has provided support- Domestic sugar production for SY2018 witnessed a 59% YoY increase to reach 32.2 million MT. With domestic consumption of ~ 25.2 million MT and net exports of 0.3 million MT, the closing stock as of end-September 2018 was 10.8 million MT, more than five months of consumption (against two months as of end-SY2017). This oversupply weighed on prices in FY2019. In SY2019, the sugar production is estimated to remain high at around 32.9 million MT. ICRA expects closing stock of around 14.6 million MT, given the high opening stocks of 10.8 million MT for this season and after assuming exports of 3.0 million MT. For SY2020, ICRA expects sugar production to decline to around 28.2 million MT owing to drought like conditions in major sugar-producing states, such as Maharashtra and Karnataka. This expected decline in sugar production has resulted in a recent increase in the sugar prices. However, the pressure on sugar prices cannot be completely ruled out given that the sugar surplus situation is likely to prevail on account of the significant opening stocks for the forthcoming season. With the distillery capacities of major mills coming into production for SY2020, the diversion of B-heavy molasses and sugarcane juice towards ethanol production is likely to increase, thus resulting in a decline in sugar production to that extent. The continuation of government support in the form of remunerative ethanol prices and subsidies for exports are also likely to prevent the piling up of cane arrears.

Liquidity Position:

BCML's liquidity position is comfortable with the average working capital utilization low at 42% of the Drawing Power during the period April 2018 to July 2019. BCML has an average cushion (drawing power less net utilisation) of ~ Rs. 620 crores during this period.

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	The rating is based on standalone financial statements of the issuer.

About the company

BCML is one of the largest sugar producers in India. The operations of the company are forward integrated, manufacturing alcohol, using molasses – a by-product of sugar, and power, using cogeneration from bagasse, another by-product of sugar manufacturing. Its facilities consist of ten sugar mills in Uttar Pradesh with a combined capacity of 76,500 tonnes of cane per day (tcd), 360 kilo litres per day (klpd) of its distillery and 165.2 MW of saleable cogeneration capacity. The Saraogi family, the promoters, holds 41.10% of the company's equity capital. The company is setting up a 160 KLPD distillery, which is expected to be operational by Dec 2019.

In FY2019, the company has reported a PAT of Rs. 570.64 crore on total income of Rs.4286.78 crore against a PAT of Rs. 221.12 crore on total income of Rs.4343.71 crore during FY2018.

Key financial indicators (audited)

	FY2017	FY2018	FY2019
Operating Income (Rs. crore)	3467.17	4343.71	4286.78
PAT (Rs. crore)	592.29	221.12	570.64
OPBDIT/OI (%)	26.87%	10.49%	16.17%
RoCE (%)	24.19%	12.10%	18.47%
Total Debt/TNW (times)	1.16	0.62	0.85
Total Debt/OPBDIT (times)	1.91	2.17	2.55
Interest coverage (times)	16.81	8.76	16.93

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Chronology of Rating History for the past 3 years								
		Type	Amount Rated (Rs. crore)	Amount O/S^(Rs Crore)	Date & Rating August 2019	Date & Rating								
						In FY2019			In FY2018			In FY2017		
						April 2019	March 2018	April 2017	February 2017	November 2016	June 2016	April 2016	February 2016	May 2015
1	Fund Based Limits	Long Term	1903.00		[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Negative)
2	Fund Based Limit	Long Term/ Short term	150.00		[ICRA]AA (Stable)/ [ICRA]A1+									
2	Term Loan	Long Term	387.63	376.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Negative)
3	Non fund based Limits	Short Term	(155.00)*		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
4	Commercial Paper	Short Term	1200.00	Nil	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1

*sublimit of fund based; ^as on March 2019

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	1200.00	[ICRA]A1+
NA	Term Loan	FY2014	NA	FY2020	387.63	[ICRA]AA (Stable)
NA	Fund Based Limits	NA	NA	NA	1903.00	[ICRA]AA (Stable)
NA	Fund Based Limits	NA	NA	NA	150.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Non-Fund Based limits	NA	NA	-	(155.00)*	[ICRA]A1+

* sublimit of fund based

Source: Balrampur Chini Mills Limited

ANALYST CONTACTS

Jayanta Roy

+91 33 7150 1120

jayanta@icraindia.com

Kaushik Das

+91 33 7150 1104

kaushikd@icraindia.com

Sumit Jhunjunwala

+91 33 7150 1111

sumit.jhunjunwala@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 61693300

shivakumar@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

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 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