November 24, 2021

Balrampur Chini Mills Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Commercial Paper	1200.00	900.00	[ICRA]A1+; Reaffirmed
Long-term fund - based - Term Loan	130.24	0.00	-
Long-term - fund-based – working capital facilities	2003.00	1853.00	[ICRA]AA (Positive); Reaffirmed
Long-term/Short-term - fund-based – working capital facilities	150.00	0.00	-
Short-term – non-fund-based – working capital facilities	(170.00)^	(155.00)^	[ICRA]A1+; Reaffirmed
Total	**3483.24**	**2753.00**	

**Instrument details are provided in Annexure-1; ^Sub limit of fund-based facilities*

Rationale

The ratings continue to factor in Balrampur Chini Mills Limited's (BCML) large scale of operations with a crushing capacity of 76,500 tonnes of cane per day (TCD). Further, its forward integration into distillery and co-generation provides alternate revenue streams and cushion against the cyclicality in the sugar business to some extent. Additionally, BCML is planning to expand its distillery capacities to 1050 kilo litre per day (KLPD) by November 2022, which will further strengthen its operating profile going forward. While reaffirming the ratings, ICRA notes the expected expansion in BCML's operating profits over the medium term in light of favourable mix of ethanol from B-heavy molasses/juice (feedstock), coupled with higher sugar and ethanol realisations, albeit moderated by hiked cane prices. The company has announced large capex of around Rs. 993 crore over FY2022-FY2023 towards distillery capacity expansion, modernisation of plants/debottlenecking and setting up of refineries. For funding the said capex, Rs. 500-crore debt (partially under interest subvention) is planned to be availed, which could moderate its medium-term debt metrics.

The ratings consider BCML's healthy gross recovery rate at 11.8% in FY2021, supported by increased proportion of high-yielding cane in the varietal mix and cane developmental activities undertaken by the company. Further, ICRA notes that 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. In ICRA's opinion, BCML's operating profits are likely to be less volatile than the historical levels in the medium term, driven by the expected continuation of MSP and the industry's focus on diverting of excess cane towards ethanol production. ICRA expects higher sucrose diversion towards B-heavy molasses/juice-based ethanol, coupled with healthy prospects for sugar exports would allow maintenance of demand-supply balance at national level and thus would support the domestic prices over the near term.

The ratings remain constrained, however, by the vulnerability of BCML'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 BCML, remain vulnerable to the policies of the Government of UP (GoUP), sugar international trade, sugar domestic quota, sugar and ethanol pricing and interest subvention loan for distillery capacity expansion.

The Positive outlook on the rating reflects ICRA's opinion that BCML would benefit from its improved operational profile post commission of planned distillery capacities in terms of lower volatility and expansion of operating profits.

Key rating drivers and their description

Credit strengths

Among the largest sugar producers in India with efficient operations – With 76,500 TCD of sugar capacity comprising ten sugar mills based out of Uttar Pradesh, BCML continues to be one of the largest sugar manufacturers in the country. Further, its gross recovery rates have improved over past few years due to varietal change of sugarcane with developmental activities being undertaken by the company, leading to a lower cost of production. However, the recovery rate slightly moderated to 11.8% in FY2021 (PY: 11.9%) on account of unfavourable agro-climatic conditions. The net recovery rate moderated to 10.63% in FY2021 (PY: 11.44%) owing to higher diversion towards B-heavy molasses of ~65% (PY: 32%). However, increased contribution from the distillery division is likely to largely check the adverse impact of the same on BCML's overall profit margins.

Forward-integrated operations supported by government policies to provide cushion against cyclicality in sugar business – BCML's operations are forward integrated with a saleable co-generation capacity of 168.7 megawatt (MW) and a distillery capacity of 520 KLPD, which provide alternate revenue streams and cushion against the cyclicality in its sugar business. These two segments (combined) accounted for ~22% of revenues and ~58% of profit before interest and tax in FY2021. Further, the company is undertaking expansion of its distillery capacity to 1,050 KLPD by November 2022, thus further strengthening its operating profile with increased contribution of non-sugar revenues.

Profitability expected to improve owing to steady sugar realisations and higher volumes from distillery segment – BCML's overall operating profitability and cash accruals are likely to benefit from firm sugar domestic realisations, along with better distillery performance in the current fiscal. From FY2023 onwards, the company is expected to divert higher cane towards production of ethanol through B-heavy molasses and/or sugarcane juice with the expanded capacity becoming operational. BCML's operating margins are anticipated to be supported by the likely continuation of MSP even as market prices are firmed up, remunerative prices of ethanol and the industry's focus on diverting of excess cane towards ethanol production, resulting in improved domestic demand supply balance.

Conservative capital structure and healthy debt coverage indicators – The company's capital structure is comfortable with a gearing of 0.48 times as on March 31, 2021, improved from 0.63 times as on March 31, 2020 mainly due to the reduction in debt levels. Around 72% of the debt as on March 31, 2021 comprised working capital borrowings, implying a long-term debt to equity ratio of 0.14 times. BCML's debt coverage indicators continue to remain healthy as indicated by interest coverage of 18.3 times, total debt/OPBDITA of 1.7 times, NCA/TD of 45% and DSCR of 5.3 times in FY2021. While the coverage and leverage can moderate going forward owing to planned capex with total debt/OPBIDTA of 1.7-2.5 times and leverage of around/above 0.5 times, the same are expected to remain at comfortable levels.

Credit challenges

Profitability of UP-based sugar mills continues to depend on GoUP policy on cane prices – BCML's profitability, along with other UP-based sugar mills, continues to be vulnerable to the GoUP's policy on cane prices. The cane price is determined by the GoUP at the start of the crushing season. Thus, the company's performance can be impacted by a disproportionate increase in cane price. Further, the profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. However, the recent measures taken by the Central Government and the GoUP supported sugar prices and liquidity of sugar mills. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for debt-funded distillery capex are likely to prevent the piling up of cane arrears. The recent upward revision in UP-SAP by Rs. 25/quintal could limit the profitability. However, firmed up domestic prices are likely to offset this risk to some extent.

Profitability of sugar mills vulnerable to industry cyclicality 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. Nonetheless, BCML has been exploring other varieties to mitigate this risk to certain extent. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction 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 is expected to help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Liquidity position: Strong

BCML's liquidity position is **strong** with likely healthy cash flow from operations and average cushion in drawing power of over Rs. 700 crore during September 2020 to September 2021. ICRA expects BCML to comfortably meet its debt repayment obligations in the medium term. However, the company is in process of expanding its grain/molasses/juice distillery capacities, along with some debottlenecking/improvement of its plants with capex of around Rs. 993 crore over FY2022-FY2023. The said capex is planned to be funded by Rs. 500-crore term loans (partially tied up) and the balance from its strong internal accruals.

Rating sensitivities

Positive factors – Lower volatility in operating profits and increased revenue contribution from distillery, along with improvement in debt coverage metrics may trigger a rating upgrade.

Negative factors – The outlook can be revised to Stable if there is any significant decline in sugar prices, cane crushing volumes, recovery rate, ethanol realisations or an increase in cane costs or any material change in Government policies or any major debt-funded capex that may result in moderation of profitability and debt coverage metrics on a sustained basis. The specific metrics that could lead to outlook revision include interest cover below 12 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	Standalone

About the company

Balrampur Chini Mills Limited (BCML) is one of the largest sugar producers in India. The company's operations are forward integrated, manufacturing alcohol, using molasses – a by-product of sugar, and power, using co-generation 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 TCD of sugarcane, 520 KLPD of its distillery and 168.7 MW of saleable co-generation capacity. Further, BCML is expanding its distillery capacities to 1,050 KLPD by November 2022. The Saraogi family, the promoters, holds 41.4% of the company's equity capital as on September 30, 2021.

Key financial indicators

BCML Standalone	FY2020 A	FY2021 A
Operating Income (Rs. crore)	4,743.7	4,815.9
PAT (Rs. crore)	509.3	469.8
OPBDIT/OI (%)	14.4%	14.9%
PAT/OI (%)	10.7%	9.8%
RoCE (%)	15.3%	15.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.1	0.9
Total Debt/OPBDIT (times)	2.2	1.7
Interest Coverage (times)	10.7	18.3
DSCR (times)	5.0	5.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)					Chronology of Rating History					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Sep 2021) (Rs. crore)	Current Rating		FY2021	FY2020		FY2019	FY2018	
					Nov 24, 2021	April 09, 2021	April 07, 2020	Aug 30, 2019	April 04, 2019	-	Mar 16, 2018	Apr 20, 2017
1	Commercial Paper	Short Term	900.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+
2	Fund - based - Term Loan	Long Term	0.00	-	-	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
3	Fund-based – working capital facilities	Long term	1853.00	-	[ICRA]AA (Positive)	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Fund-based – working capital facilities	Long term/ Short term	0.00	-	-	[ICRA]AA (Positive)/ [ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	-	-	-
5	Non-fund-based – working capital facilities	Short term	(155.00)*	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	[ICRA]A1+	[ICRA]A1+

*Amount in Crores; Source: Company; * Sub limit of fund based facilities*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	Very Simple
Fund-based – working capital facilities	Simple
Non-fund-based – working capital facilities	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	Instrument Name	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
Yet to be placed	Commercial Paper	NA	NA	7-365 days	900.00	[ICRA]A1+
NA	Fund-based – working capital facilities	NA	NA	NA	1853.00	[ICRA]AA (Positive)
NA	Non-fund-based – working capital facilities	NA	NA	-	(155.00)*	[ICRA]A1+

Source: *BCML; *Sub limit of fund-based facilities*

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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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.

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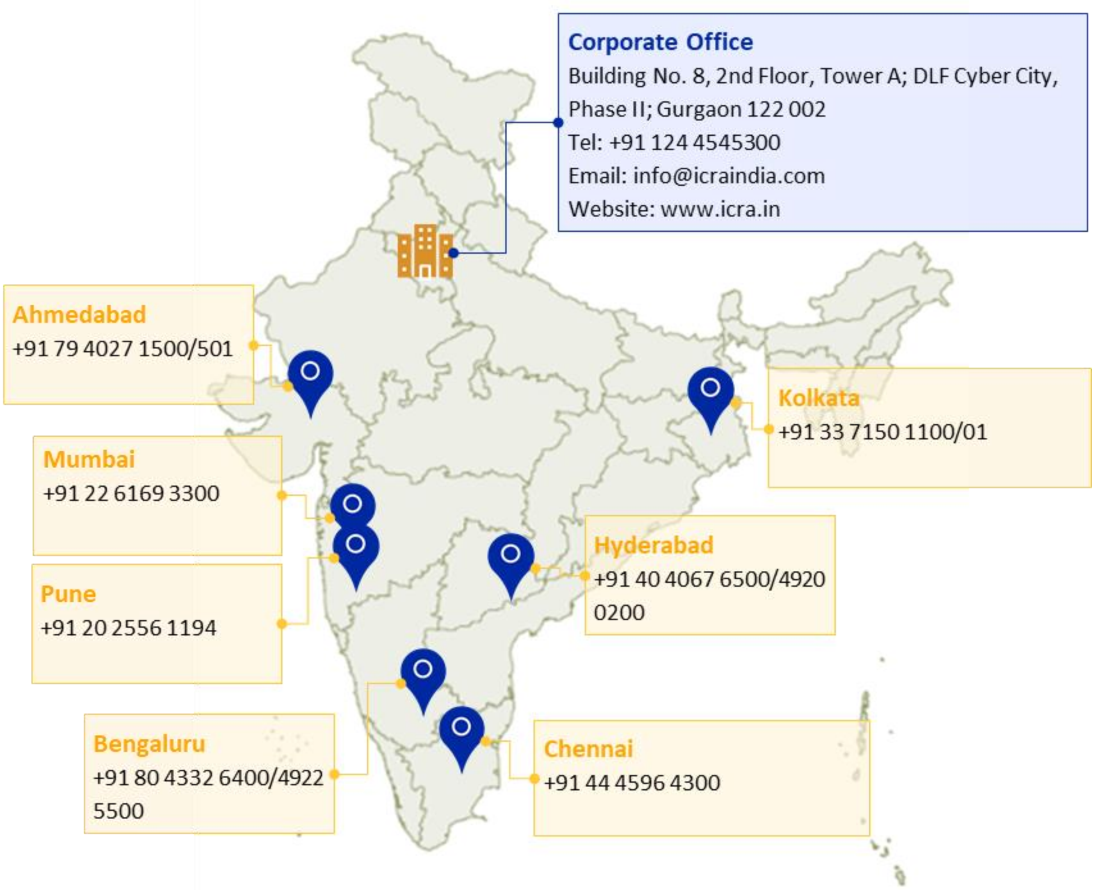

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