Uttam Sugar Mills Limited

April 05, 2019

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based -Term Loan	405.56	[ICRA]BB+ (Stable); Assigned
Fund-based – Cash Credit	455.00	[ICRA]BB+ (Stable); Assigned
Non-fund Based-Working Capital Facilities	29.50	[ICRA]A4+; Assigned
Unallocated Limits	59.94	[ICRA]BB+ (Stable); Assigned
Total	**950.00**	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings are constrained by Uttam Sugar Mills Limited (USML)'s moderate financial profile, as reflected by the leveraged capital structure, modest operating profitability and coverage metrics. In 9M FY2019, the operating profitability is constrained due to the decline in sugar realisations YoY and in FY2018, by the weak sugar realisations in Q4 FY2018 resulting in an inventory write-down and the weak performance from the distillery division. USML's debt is high at Rs. 816.7 crore as on March 31, 2018, comprising 52% working capital borrowings and remaining term debt. This, along with increased creditors resulted in high total outside liabilities/total net worth. The debt is likely to increase in FY2019, given the debt-funded capex undertaken for the distillery expansion and the low-cost soft loans approved by the state government. USML's debt repayments are relatively on the higher side in FY2020-FY2021 and the timely servicing of the debt repayments is critically dependent on sufficient availability of cane, healthy recovery rates and contribution margins going forward. USML's ratings are also constrained by risks associated with the inherent cyclicality in the sugar business; the agro-climactic conditions related to cane production; the Government policies on cane pricing, import duties; the pricing and offtake of cogeneration power and ethanol and counterparty credit risk associated with the sale of power to the utilities in Uttar Pradesh (UP).

However, the ratings favourably factor in the long track record of the promoters in the sugar industry and the USML's forward integration into cogeneration and distillery businesses, which provide a cushion against cyclicality in the sugar business. USML's operating performance in terms of cane crushing and recovery rate has improved in the last three years. USML's cane crushing increased from 20.1 lakh MT in SY2016 to 36.9 lakh MT in SY2018. The crushing levels are likely to remain healthy in SY2019 around 35 lakh MT despite a 5% decline YoY. The healthy cane crushing volumes are likely to support the by-products – cogeneration and distillery division's performance in FY2019. USML's recovery rate has improved from 10.76% in SY2016 to around 11.70% (estimated) in SY2019, resulting in a decline in cane cost of production. In addition to these factors, the operating profitability in FY2019 is likely to improve, given the expected increase in stock valuation for closing stocks of the previous year with the minimum support price at Rs. 31/kg and the higher ethanol volumes on the back of enhanced capacity and higher ethanol realisation YoY. The continued support from the Government for the sugar industry in the form of an increase in the minimum support price (MSP) to Rs. 31/kg from Rs. 29/kg, interest subvention loans for ethanol expansion and the recently approved soft loans by the Central Government, in addition to the approved cash subsidy and low-cost soft loans by the state government, are likely to support the profitability and cash accruals in FY2019.

Outlook: Stable

ICRA expects sugar prices to be supported by the recent Government initiatives. The outlook may be revised to Positive if the sugar production estimates for SY2020 are lowered and the exports under the minimum indicative export quota (MIEQ) are implemented successfully, resulting in favourable supply-demand dynamics and consequently, higher sugar prices. The outlook may be revised to Negative if the sugar production estimate is considerably higher than the consumption estimates for SY2020, resulting in pressure on sugar prices and sugar off-take.

Key rating drivers

Credit strengths

Significant experience of promoter in the sugar industry – The promoter of the company, Mr. Raj Kumar Adlakha has close to four decades of experience in the sugar business. USML was acquired by the Adlakha family in 1998.

Significant size of forward-integrated and operationally-efficient sugar operations - USML operates 23,750 tonne crushed per day (TCD) of sugar capacities in UP and Uttarakhand. The plant's operation is forward integrated into power and alcohol business— co-generation capacity of 103 mega-watt (MW) and distillery capacity of 150 kilo litre per day (KLPD). The distillery capacity was increased from 75 KLPD to 150 KLPD in December 2018. The integrated operations provide alternate revenues and cushion profitability against cyclicality in sugar business.

Healthy cane crushing and recovery rates – USML's cane crushing is likely to remain healthy around 35 lakh MT, despite a decline by 5% from an all-time high of 36.9 lakh MT cane crushing in SY2018. The crushing increased from 20.1 lakh MT in SY2016 to 36.9 lakh MT in SY2018, a CAGR increase by 35%. These crushing levels will support the forward-integrated operations. Further, USML's healthy recovery rate at around 11.70% in SY2019, an increase from 10.75% in SY2016 would support its cost structure.

Expected improvement in operating profitability in FY2019 – The operating profitability in FY2019 is likely to improve supported by the lower cost of production (owing to higher recovery rate), expected improvement in stock valuation as against March 31, 2018 with the minimum support price at Rs. 31/kg and the better performance of the by-products.

In FY2019, the higher ethanol volumes on the full year operations of the earlier capacity of 75 KLPD and the enhanced distillery capacity of three months, along with higher realisations backed by regulatory support, is likely to result in improved performance of the distillery division on a YoY basis. The proposed ethanol production from B-heavy molasses (in case of subdued sugar realisations) from FY2020 is likely to support the profitability going forward.

Government's measure to support sugar prices and sugar mills' liquidity – The Government of India (GoI) has approved soft loans (interest subvention at 7%) of Rs. 10,540 crore for cane payments and interest subvention loans of Rs. 12,900 crore for ethanol capacity augmentation. While the former announcement is likely to support the liquidity of the mills in the near term, the latter is likely to address the current supply-demand imbalance in the industry over the medium term and also help in meeting the 10% blending target under the ethanol blending programme (EBP). USML's eligibility is around Rs. 140.9 crore for the soft loans and around Rs. 73.0 crore for the loans under the ethanol capacity expansion.

Earlier, the UP government approved a cash subsidy of Rs. 4.50/quintal (of cane crushed in SY2018) and low-cost soft loans, which translate to Rs. 16 crore and Rs. 143 crore, respectively. These are likely to support USML's liquidity in FY2019.

Credit challenges

Financial profile characterised by leveraged capital structure, moderate operating profitability and debt coverage indicators – In 9M FY2019, the operating profitability is moderate at 9.8% due to the subdued sugar realisations. In FY2018, the same was constrained at 9.4% owing to the weak sugar realisations in Q4 FY2018, resulting in an inventory write-down and the weak performance from the distillery division, which reported %PBIT at 6.0% on revenues of Rs. 38.8 crore as against %PBIT of 21.0% on revenues of Rs. 94.6 crore in FY2017. In FY2018, the distillery was non-operational for seven to eight months owing to environment-compliance related issues. However, the plant has been made zero discharge compliant and has been operational from December 2017 onwards.

USML's gearing is high, at 4.6 times, given the significant debt of Rs. 816.7 crore as on March 31, 2018. This, along with the increased creditors resulted in high total outside liability/total net worth of 6.9 times. The debt is likely to increase in FY2019, given the debt-funded capex undertaken for the distillery expansion (of the total cost of Rs. 38-crore, Rs. 23-crore was debt-funded) and the low-cost soft loans approved the state government (of the Rs. 143-crore approved, Rs. 101.3-crore was drawn down in FY2019).

High debt repayments - USML's debt repayments are relatively on high side ranging Rs. 125 – 130 crore in FY2020-FY2021. The servicing of the debt obligations in a timely manner would be dependent on the sufficient cane availability, healthy recovery rates and contribution margins going forward.

High working capital intensity – USML's working capital intensity is high given the seasonality involved in the crushing operations and the high debtors pertaining to the power receivables from UP-discoms.

Profitability remains vulnerable to state government'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.

Vulnerability of profitability to agro-climatic risk and regulatory risk - The profitability of sugar mills remains exposed to the cyclicality of the sugar industry, the agro-climatic risks related to cane production, the Government policies related to sugar trade and the counterparty credit risk associated with the sale of power to the utility.

Liquidity Position

The liquidity profile is moderate with the average working capital utilisation at 74% during the period December 2017 – December 2018. USML's FFO is expected to increase in FY2019 on the back of improved operating profitability. This along with some cushion in the cc limits, opening free cash balances of Rs. 19 crore and the undrawn soft loans of Rs. 40 crore are likely to provide some liquidity in the near term.

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

The company was incorporated as Associated Sugar Mills Limited in October, 1993 by Mr. M.K Swarup along with his family members. In 1998, the Adlakha family, along with their associates, acquired 100% shareholding in the company from the erstwhile promoters. Subsequently, the name of company was changed to Uttam Sugar Mills Limited w.e.f. November, 1998. Now, Uttam Sugar Mills Limited (USML), a part of the Uttam Group, is one of the leading integrated sugarcane processing company, having corporate office at Noida.

The company is involved in the manufacturing of sugar and the forward integrated products - power and ethanol. The company has aggregate cane crushing capacity of 23,750 TCD, cogeneration capacity of 103 MW and ethanol production capacity of 150 KLPD. The company has four sugar plants, out of which one is located in the state of Uttarakhand and other three in Uttar Pradesh.

In 9M FY2019, on a provisional basis, the company reported a net profit of Rs. 31.3 crore on an operating income of Rs. 900.7 crore, as compared to a net profit of Rs. 46.3 crore on an operating income of Rs. 1008.6 crore in the previous year. In FY2018, the company reported a net profit of Rs. 101.45 crore on an operating income of Rs. 1429.95 crore, as compared to a net profit of Rs. 156.10 crore on an operating income of Rs. 1190.40 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1085.4	1243.5
PAT (Rs. crore)	106.6	17.0
OPBDIT/OI (%)	20.0%	9.4%
RoCE (%)	25.3%	11.1%
Total Debt/TNW (times)	4.8	4.6
Total Debt/OPBDIT (times)	3.5	7.0
Interest coverage (times)	2.9	1.5

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
						-	-	-
1	Fund-based -Term Loan	Long Term	405.56	405.56	[ICRA]BB+ (Stable)	-	-	-
2	Fund-based – Cash Credit	Long Term	455.00		[ICRA]BB+ (Stable)	-	-	-
3	Non-fund Based-Working Capital Facilities	Short Term	29.50		[ICRA]A4+	-	-	-
4	Unallocated Limits	Long Term	59.94		[ICRA]BB+ (Stable)	-	-	-

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	Term Loan 1	Sep-2015	11.60%-12.00%	Sep-2020	21.83	[ICRA]BB+ (Stable)
NA	Term Loan 2	May-2015 to Jun-2016	11.00-11.50%	Sep-2022	223.45	[ICRA]BB+ (Stable)
NA	Term Loan 3	Nov-2018	5%	Jun-2024	101.32	[ICRA]BB+ (Stable)
NA	Term Loan 4	Sep-2018	11.00%	Dec-2020	57.14	[ICRA]BB+ (Stable)
NA	Term Loan 5	Jun-2014	-	Jun-2019	1.82	[ICRA]BB+ (Stable)
NA	Cash Credit	NA	NA	NA	455.00	[ICRA]BB+ (Stable)
NA	Non-fund Based-Working Capital Facilities	NA	NA	-	29.50	[ICRA]A4+
NA	Unallocated Limits	NA	NA	-	59.94	[ICRA]BB+ (Stable)

Source: Uttam Sugar Mills Limited

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@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

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

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