January 06, 2020 (Revised)

Dalmia Bharat Sugar And Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Working Capital Facilities	591.00	570.00	[ICRA]AA-(Stable); Reaffirmed
Fund Based – Term Loan	537.99	512.13	[ICRA]AA-(Stable); Reaffirmed
Non-fund Based – Working Capital Facilities	177.50	177.50	[ICRA]A1+; Reaffirmed
Commercial Paper	700.00	700.00	[ICRA]A1+; Reaffirmed
Total	**2006.49**	**1959.63**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation factors in the Dalmia Bharat Sugar and Industries Limited's (DBSIL's) healthy financial risk profile as reflected by the comfortable capital structure of 0.7 times as on March 31, 2019, strong financial flexibility and healthy debt coverage metrics with an interest cover of 4.6 times and debt service coverage ratio of 2.4 times in FY2019, which are expected to remain healthy in the near term. The ratings factor in the continued support from the Government for the sugar industry. ICRA notes that recent interventions by both the Central Government and the state government, which included an upward revision in minimum support prices, interest subvention loans for ethanol expansion, soft loans and export subsidy, have supported the sugar industry and benefited integrated sugar producers like DBSIL. The sugar release mechanism, creation of buffer stock, the recent downward revision in the expected sugar production for SY2020 along with sugar exports are likely to support the sugar prices in the near term. In the current year, while the lower power tariff will impact the co-gen division, the overall operating profitability is expected to remain healthy, driven by higher sugar realisations and an export subsidy of Rs 10.44/kg of sugar export for SY2020. Also, while the increase in the molasses reserved quota from 12.5% in SY2019 to 16% in SY2020 for state manufacturers of country-made liquor in UP is likely to result in a decline in the availability of the molasses for ethanol manufacture, the distillery segment's performance would be supported by the remunerative ethanol realisations.

The ratings continue to factor in DBSIL's efficient operations in the business of manufacturing sugar and its by-products. Also, the geographical diversification of the company's operations with an installed capacity of 24,000 tonnes crushed per day (TCD) in UP and 10,700 TCD in Maharashtra is a positive. Moreover, DBSIL's forward integration into cogeneration and the distillery line as well as its presence in other (non-sugar) operations continue to provide alternate revenue streams and cushions it from the cyclicality of the sugar business to a certain extent. DBSIL has enhanced the distillery capacity to 240 KLPD in SY2019 from 140 KLPD, further strengthening the operating profile of the company.

ICRA notes that profitability of the UP-based sugar mills will remain vulnerable to the Government of UP's (GoUP) policy on cane prices, the Central Government's policies on import and export of sugar as well as the cyclical nature of the sugar industry, agro-climatic risks related to cane production and counterparty credit risk associated with the sale of power to the utilities in the state.

Key rating drivers and their description

Credit strengths

Geographically-diversified operations – The company's geographically diversified operations (UP has 24,000 TCD of installed capacity, while Maharashtra has 10,700 TCD) are expected to provide a cushion against fluctuation in operational performance in any of the regions. Notably, high recovery rates in Maharashtra have benefitted the company's profitability in the earlier years.

Forward integration into cogeneration and distillery businesses provide alternate revenue streams – DBSIL has a co-generation capacity of 107 Mega Watt (MW) and a distillery capacity of 240 KLPD (kilo litres per day), which provide additional revenue streams and provide a buffer against cyclicality in the sugar industry. DBSIL has enhanced the distillery capacity to 240 KLPD in SY2019 from 140 KLPD, resulting in higher levels of forward integration thus strengthening the operating profile of the company. In addition, the company is involved in the production of magnesite, and operates windmills of an aggregate capacity of 16.5 MW and also operates a travel business that adds to the profitability, albeit to a small degree.

Operationally efficient sugar mills with healthy recovery rates – The recovery rate of the company (UP and Maharashtra) for sugar seasons stood at 11.59% in FY2017, 11.84% in FY2018 and 12.18% in FY2019. This helped bring down the company's cost of production substantially. 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.

Strong capital structure, financial flexibility and healthy coverage metrics – The capital structure of the company is conservative with a debt-to-equity ratio of 0.69 times as on March 31, 2019. The comfortable capital structure and healthy profitability has resulted in healthy coverage indicators for the company with an interest cover of 4.6 times and DSCR of 2.4 times in FY2019, which are likely to remain healthy during FY2020. DBSIL has unencumbered cash balances of Rs. 118 crore as on March 31, 2019 and a healthy cushion in the drawing power.

Credit challenges

Profitability of UP-based sugar mills continue to depend on GoUP policy on cane prices – DBSIL'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 is determined by the GoUP at the start of the crushing season. Thus, the performance of the company can be impacted by disproportionate increase in cane price in any particular year. Nonetheless, recent measures taken by the Central Government and the GoUP have supported sugar prices and the liquidity of sugar mills.

Sugar mills remain vulnerable to industry cyclicality and agro-climatic risks – Being an agri-commodity, the sugarcane crop is dependent upon weather 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. In addition, the cyclicality in sugar production results in significant volatility in sugar prices. For SY2020, ICRA expects sugar production to decline to around 26.0 million MT, owing to a decline in the cane availability in major sugar-producing states, such as Maharashtra and Karnataka. This, along with the sugar release mechanism, creation of buffer stock and sugar exports, is likely to support sugar prices in the near term. With the distillery capacities of major mills coming into production during SY2019 - SY2020, the diversion of B-heavy molasses and sugarcane juice towards ethanol production is likely to increase, resulting in a decline in sugar production to that extent. The continuation of Government support in the form of buffer stock creation, remunerative ethanol prices and subsidies for exports are also likely to prevent the piling up of cane arrears.

Decline in the cogeneration tariff and increase in levy molasses quota in UP is likely to have an adverse impact on the operating profitability of the sugar mills: In July 2019, the Uttar Pradesh Electricity Regulatory Commission revised the tariff for projects commissioned in or prior to FY2006 from Rs. 4.98 in FY2019 to Rs. 2.92 in FY2020. This reduction is likely to adversely impact the profitability from the co-generation segment going forward. In addition, the GoUP increased the molasses reserved quota from 12.5% in SY2019 to 16% in SY2020 for the state manufacturers of country-made liquor. The state distilleries would purchase the molasses at a subsidised rate of Rs. 700/MT, as against the prevailing molasses price of Rs. 5000/MT. This move would result in a decline in the availability of the molasses for ethanol manufacture and thus impact the profitability from the distillery segment to some extent. However, the distillery segment's performance would be supported by the remunerative ethanol realisations.

Liquidity position: Adequate

DBSIL's liquidity position is adequate with the average working capital utilisation moderate at 52% of the Drawing Power with an average cushion of Rs. 318 crore during the period November 2018 to November 2019. DBSIL has unencumbered cash balances of Rs. 118 crore as on March 31, 2019. The debt repayment obligation of Rs. 59 crore in FY2020 and Rs. 88 crore in FY2021 can be comfortably met from the expected cash flow from operations.

Rating sensitivities

Positive triggers – While ICRA doesn't foresee an upgrade in the near term, given the oversupply position in the country, a sustained period of firm sugar prices driven by favourable demand-supply dynamics and/or the pricing of sugarcane is formally linked to sugar realisations, resulting in lower volatility of cash flows from the sugar business, may trigger an upgrade.

Negative triggers – Negative pressure on DBSIL's rating could arise with (1) higher-than-anticipated decline in sugar prices, recovery rate or an increase in cane costs, resulting in deterioration of the profitability and debt coverage metrics, or (2) its inability to bring the TD/OPBITDA below 3.0 times.

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	ICRA has considered the consolidated financial statements of DBSIL. List of entities consolidated are provided in Annexure 2

About the company

DBSIL, erstwhile Dalmia Cement (Bharat) Limited, was established in 1939 at Dalmiapuram in Tamil Nadu. Post demerger, the company started operating as an integrated sugar player (with cane crushing capacity of 34,700 TCD, distillery of 240 KLPD and power cogeneration capacity of 107 MW (across UP and Maharashtra) along with 16.5 MW of windmill capacity, magnesite and travel business).

In FY2019, the company reported a net profit of Rs. 175.2 crore on an operating income of Rs. 2071.0 crore compared to a net profit of Rs. 122.3 crore on an operating income of Rs. 2258.9 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	2,258.9	2,071.0
PAT (Rs. crore)	122.3	175.2
OPBDIT/OI (%)	11.0%	15.4%
RoCE (%)	8.2%	10.3%
Total Outside Liabilities/Tangible Net Worth (times)	2.7	1.7
Total Debt/OPBDIT (times)	3.2	3.3
Interest Coverage (times)	3.6	4.6
DSCR	1.4	2.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years							
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018		FY2017				
					6-Jan-2020	30-Nov-2018	9-Oct-2017	22-Aug-2017	03-Mar-2017	12-Jan-2017	05-Oct-2016	28-Jun-2016	17-May-2016
1	Cash Credit	Long Term	570.00	-	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Positive)
2	Term Loan	Long Term	512.13	512.13	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A+(Stable)	[ICRA]A(Positive)
3	Non fund based – working capital facilities	Short Term	177.50	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1
4	Unallocated limits	Long Term	-	-	-	-	[ICRA]AA-(Stable)	[ICRA]A+(Positive)	[ICRA]A+(Stable)	-	-	-	-
5	Commercial Paper	Short Term	700.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+		

Amount in Rs. crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund- Based Working Capital Facilities	-	-	-	570.00	[ICRA]AA-(Stable)
NA	Term Loan	FY2014-FY2019	5%-9.55%	FY2025-FY2030	512.13	[ICRA]AA-(Stable)
NA	Non-fund Based-Working Capital Facilities	-	-	-	177.50	[ICRA]A1+
NA	Commercial Paper	-	7.35-7.75%	80-90 days	700.00	[ICRA]A1+

** Working capital demand loan of Rs. 1 crore is a sub-limit of cash credit of Rs. 4 crore*
Source: ABC Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Himshikhar Investment Limited	100.00%	Full Consolidation

Corrigendum

Document dated January 6, 2020 has been corrected with revisions as detailed below:

Page 8 – Relationship contact has been changed from Jayanta Chatterjee to L Shivakumar, along with the contact details

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