

April 09, 2021

Balrampur Chini Mills Limited: Ratings reaffirmed; outlook revised to Positive

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+; Reaffirmed
Fund-based -Term Loan	130.24	130.24	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Fund-based - Working Capital Facilities	2003.00	2003.00	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Fund-based - Working Capital Facilities	150.00	150.00	[ICRA]AA/[ICRA]A1+ reaffirmed; outlook revised to Positive from Stable
Non-fund Based-Working Capital Facilities	(170.00)^	(170.00)^	[ICRA]A1+; Reaffirmed
Total	3483.24	3483.24	

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

Rationale

The rating action considers an expected improvement in Balrampur Chini Mills Limited's (BCML) operating profitability and debt coverage indicators in FY2022 on the back of higher B-heavy ethanol sales volumes and an expected stable sugar realisation. In Uttar Pradesh (UP), sugar production is estimated to decline by ~20% in SY2021, which is likely to support sugar prices in the near term. Also, with continued higher diversion of cane towards B-heavy molasses, there is likely to be an increase in the sales volume of B-heavy ethanol, having better realisation, thus increasing the overall revenue and profits from the distillery segment. While ICRA notes that the operating profitability (OPM) was impacted in 9M FY2021 primarily due to lower recovery rates, the debt coverage indicators continued to remain healthy with long-term debt to OPBDITA of 0.76 times (annualised) and an interest cover of 12.86 times, in 9M FY2021. In addition, ICRA estimates that for the full year, the operating profitability would improve, driven by a significant improvement in performance in Q4 FY2021, resulting in the profitability remaining in line with that of FY2020. Debt coverage indicators would remain strong with an interest cover of ~16x and total debt to OPBDITA of less than 2x. In addition, the company has adequate cushion (drawing power less net utilisation) of ~ Rs. 1,000-1,200 crore in working capital limits, thus imparting considerable financial flexibility to the company.

The ratings continue to factor in BCML's large scale of sugar business with operationally efficient sugar units with forward integration into the cogeneration and distillery businesses, which provides alternative revenue stream and partially reduces the impact of cyclicity of the sugar business. The company is planning to set up a new distillery of 320 KLPD, which is expected to commence operation by December 2022, which will further strengthen the operating profile, going forward. The ratings also consider BCML's healthy recovery rates at 11.93% (pre B-heavy diversion) in FY2020 against 11.58% achieved in FY2019, owing to benefits from a varietal change with higher proportion of recovery cane available. The same is, however, expected to moderate in the current year owing to higher diversion towards B-heavy molasses. The long-term rating continues to be constrained by the cyclical nature of the sugar industry, agro-climatic risks related to cane availability and the susceptibility of profitability to sudden changes in Government policies. However, ICRA notes that recent interventions by both the Central Government and the state government, which included revision in minimum support price, interest subvention loans for setting up of ethanol manufacturing facilities, soft loans and export subsidy, supported the sugar industry and benefited integrated sugar producers like BCML.

Key rating drivers and their description

Credit strengths

Integrated nature of operations continues to provide cushion against cyclicity 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 520 KLPD distillery capacity and 168.70 MW of saleable cogeneration capacity at present. The company has firmed up plans to set up a new distillery of 320 KLPD, which is expected to commence operation by December 2022, which will further strengthen the operating profile, going forward. ICRA also acknowledges that higher diversion towards producing B-heavy molasses by integrated players including BCML will lead to lower sugar production and in turn result in lower dependence on export policy of GoI for evacuation of surplus sugar. Further, increased Ethanol production and sacrifice of sugar will lead to improved working capital cycle. The integrated operation also provides cushion against cyclicity in the sugar business.

Increased proportion of high-yielding canes to support the company's recovery rates, notwithstanding a drop in SY2021 – Recovery rates for BCML have improved due to varietal change of sugarcane with developmental activities being undertaken by the company, leading to an improved cost of production. In FY2020, the recovery rates had improved to 11.93% (pre B-heavy diversion) against 11.58% achieved in FY2019, owing to benefits from a varietal change. This is primarily due to cane development activities, which the company had carried out. In the current financial year, however, the adverse weather condition as well as the red-rot disease are likely to moderate the recovery rates to an extent. ICRA also notes that the company had diverted a higher proportion of cane in production of B-heavy molasses in FY2021, which also impacted the sugar recovery. However, the same is likely to be more than compensated through higher production in the high-margin distillery segment.

Conservative capital structure and healthy debt coverage indicators; estimated improvement in financial performance in FY2021 – The capital structure of the company is conservative with a debt to equity of 0.63 times as on March 31, 2020. Almost 71% of the debt is on account of working capital loans, implying a long-term debt to equity of 0.18 times. Long-term debt as on December 31, 2020 stood at around Rs. 386 crore against Rs. 424 crore as of end March 2020. In addition, such loans carry a low interest rate of ~4.5% (as the loans enjoy interest subvention). Healthy profitability and low cost of overall debt resulted in strong coverage indicators for the company with long-term debt to OPBDITA of 0.76 times (annualised) and interest cover of 12.86 times, respectively, in 9M FY2021. The debt coverage indicators are expected to remain healthy over the near to medium term, driven by continued Government support to the sugar industry, higher distillery production and expected firm sugar realisations.

Credit challenges

Profitability remains vulnerable to policy interventions by Government – BCML's profitability, along with other Uttar Pradesh-based sugar mills, continues to remain vulnerable to the Government of Uttar Pradesh's (GoUP) policy on cane prices. The company's performance may be impacted by any disproportionate increase in cane price in any particular year. Further, the profitability remains vulnerable to the Government's policies on exports, export subsidy, MSP and remunerative ethanol prices. However, in recent years, the financial performance and liquidity of sugar mills have been supported by the favourable policy decisions taken by the Central Government and the GoUP. ICRA also notes that increase in cane prices by GoUP has been very rational in the recent past as there has been increase of just Rs. 45/quintal in the last 8 years and no increase in the last 3 years.

Sugar mills remain vulnerable to industry cyclicity and agro-climatic risks – Being an agri-commodity, the sugarcane crop is vulnerable to adverse weather conditions as well as pests and diseases attacks, 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. Domestic sugar production in SY2021 is expected to increase to 30.2 million MT (as per ISMA's estimates), backed by an increase in production from Maharashtra and Karnataka. In Uttar Pradesh, however, the cane availability is likely to be lower by ~15% and sugar

production is expected to be lower by ~20% in SY2021 owing to lower cane availability, a slight decline in recovery rates as well as higher conversion to ethanol. With domestic consumption of ~ 26 million MT and exports of 6.0 million MT, the closing stock is expected to decline by almost 2.0 million tonnes in the current season. Going forward, the expected higher diversion of B-heavy molasses towards ethanol production is likely to keep sugar production under check, also resulting in lower volatility in sugar prices. The continuation of Government support in the form of minimum support prices, remunerative ethanol prices and subsidies for exports are also likely to prevent the piling up of cane arrears.

Liquidity position: Strong

BCML's liquidity position is strong with a low average working capital utilisation of 39% of the drawing power between March 2020 and February 2021. BCML had an average cushion (drawing power less net utilisation) of ~ Rs. 800-1,000 crore during this period. The debt repayment obligation of ~Rs. 106 crore in FY2022 and FY2023 can be comfortably met from the expected cash flow from operations.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a sustained improvement in profitability from the distillery and sugar division. Specific triggers for a rating upgrade would be maintaining operating profit margin above 15% on a sustained basis.

Negative factors – Pressure on the rating could emerge in case of any adverse changes in government policy, which weakens the profitability and debt coverage metrics on a sustained basis. Any large debt-funded additional capex, other than what is already planned, and/or inorganic growth plans may also have a negative impact on the rating.

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	Although BCML has two associates as on March 31, 2020, enlisted in Annexure-2, ICRA has analysed the performance of BCML on a standalone basis, which accounts for 100% of the consolidated revenue, operating profit and debt levels

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 byproduct of sugar) and power (using cogeneration from bagasse, another byproduct of sugar manufacturing). Its facilities consist of ten sugar mills in Uttar Pradesh with a combined capacity of 76,500 tonnes of canes per day (tcd), 520 kilo litres per day (klpd) of distillery and 168.7 MW of saleable cogeneration capacity. The Saraogi family, the promoters, holds a 41.2% of the company's equity capital.

Key financial indicators (audited)

BCML Standalone	FY2019	FY2020	9MFY2021
Operating Income (Rs. crore)	4,286.78	4,743.67	3,792.30
PAT (Rs. crore)	570.64	509.28	231.94
OPBDIT/OI (%)	16.17%	14.43%	10.06%
RoCE (%)	18.57%	15.34%	
Total Outside Liabilities/Tangible Net Worth (times)	1.33	1.08	
Total Debt/OPBDIT (times)	2.50	2.17	
Interest Coverage (times)	16.93	10.66	
DSCR (times)	3.90	5.02	

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2022)				Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding (Dec 2020)	Current Rating April 09, 2021	FY2021	FY2020		FY2018	
						April 07, 2020	August 30, 2019	April 04, 2019	March 16, 2018	April 20, 2017
1	Fund Based Limits	Long Term	2003.00	205.0	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund Based Limit	Long Term/Short term	150.00		[ICRA]AA (Positive)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	-	-
3	Term Loan	Long Term	130.24	386.0	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
4	Non fund based Limits	Short Term	(170.0) *	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
5	Commercial Paper	Short Term	1200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

*Sublimit of fund based

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 [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
No Outstanding CP	Commercial Paper	NA	NA	7-365 days	1200.00	[ICRA]A1+
NA	Term Loan	FY2020	3.65%-3.67%^	FY2025	130.24	[ICRA]AA (Positive)
NA	Fund Based Limits	NA	NA	NA	2003.00	[ICRA]AA (Positive)
NA	Fund Based Limits	NA	NA	NA	150.00	[ICRA]AA (Positive)/[ICRA]A1+
NA	Non-Fund Based limits	NA	NA	-	(170.00)*	[ICRA]A1+

Source: Company; *Sublimit of fund based; ^net of interest subsidy

Annexure-2: List of entities considered for consolidated analysis

Company Name	BCML Ownership	Consolidation Approach
Auxilo Finserve Pvt. Ltd.	45.05%	Equity Method
Visual Percept Solar Projects Pvt. Ltd.	45.00%	Equity Method

Source: BCML annual report FY2020

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