

Balrampur Chini Mills Limited

April 04, 2019

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	108.30	387.63	[ICRA]AA (Stable); Reaffirmed
Fund-based - Working Capital Facilities	2175.00	2053.00	[ICRA]AA (Stable); Reaffirmed
Non-fund Based-Working Capital Facilities	(124.00)^	(155.00)^	[ICRA]A1+; Reaffirmed
Total	3483.30	3640.63	

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

Rationale

The ratings reaffirmation factors in the integrated nature of the company's operations, increase in crushing volumes and the structural improvement in recovery rates for Balrampur Chini Mills Limited (BCML), leading to lower cost of production and positively impacting the profitability. A conservative capital structure with low long-term debt is likely to keep the debt coverage indicators at a healthy level, going forward. As of end-FY2018, long-term debt to EBITDA for the company stood at 0.27 times, while interest cover stood at 8.9 times. With improvement in profitability in FY2019, driven by better performance of the distillery segment, the long-term debt to EBITDA is expected to remain comfortable, notwithstanding some moderation due to incremental long-term loans availed during the year on account of various Government schemes to clear cane dues. Interest cover, however, is likely to witness a substantial improvement. 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 consider the regulatory risks associated with the sugar industry, which is susceptible to sudden changes in government policies. However, ICRA notes that recent interventions by both the Central and state Governments, which included revision in minimum support prices, interest subvention loans for ethanol expansion and the recently approved soft loans (by the Central Government) in addition to the cane subsidy and low-cost soft loans, have supported the sugar industry and benefited integrated sugar producers like BCML. A substantial increase in production SY2018 weighed on prices in FY2019. While production is expected to moderate in SY2019, as per latest estimates, high carryover stocks would continue to have a negative sentiment on prices. While the outlook on sugar prices remains tepid, BCML's forward integration into cogeneration and distillery businesses continue to provide cushion against cyclical nature in the sugar business. Higher prices for ethanol, coupled with an increase in distillery production, would lead to higher profits from the distillery division. BCML is in the process of increasing its distillery capacity, which would further strengthen the operating profile of the company. Consequently, the cash flows of the company would remain comfortable relative to its debt servicing, given the healthy recovery rates 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. Cash flows from the distillery and cogeneration business provide cushion against the cyclical cashflows of the sugar business. ICRA expects BCML's cash flows to remain comfortable relative to its 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, resulting in

lower volatility of cash flows 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 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, having ten sugar mills in 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 163.2 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 cyclicity in the sugar business. BCML remains exposed to the cyclical nature of the sugar industry, and the agro-climatic risks related to cane availability.

Expected improvement in recovery rates leading to a lower cost structure - Recovery rates for BCML have witnessed an improvement due to varietal change of sugarcane with developmental activities being undertaken by the company, leading to a lower cost of production. While in SY2017, recovery rates were lower than that of the previous year, ICRA notes that the recovery levels in SY2016 were unusually high on account of very favourable climatic conditions. In the absence of such favourable weather conditions in the current sugar year, the company is likely 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. In Q3 FY2019, the recovery rate was substantially higher at 11.1% compared to 10.15% in Q3 FY2018 and 9.98% in Q3 FY2017. As a result, ICRA expects the recovery rates in SY2019 to be the highest in the recent past. ICRA expects the recovery rates to remain elevated over the medium term as the proportion of higher recovery cane increases.

Conservative capital structure and healthy debt coverage indicators - The capital structure of the company is conservative with a debt to equity ratio of 0.62 times as on March 31, 2018. Almost 90% of the debt was on account of working capital loans implying a long-term debt to equity of 0.08 times. Long-term debt as on March 31, 2019 is estimated to be around Rs. 376 crore. The increase was on account of soft loans availed in November 2018 under the scheme announced by the Government of Uttar Pradesh (GoUP). Such loans carry a low interest rate of ~5% (since the same enjoy interest waiver / subvention). Healthy profitability and reduced interest burden, given the pre-payment, resulted in strong coverage indicators for the company with interest cover of 8.9 times, notwithstanding the moderation and DSCR (excluding short term / prepayments) of 3.08 times in FY2018. In FY2019, debt coverage indicators are estimated to have witnessed a substantial improvement.

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 GoUP's policy on cane prices. The cane prices 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.

Cyclicity inherent in the sugar business; increased production in SY2018 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, ICRA expects sugar production to be around 30.7 million MT, lower than the first advance estimates (in October 2018) of around 31.5 million MT, due to a decline in the sugarcane availability in Uttar Pradesh. An opening stock of around 10.8 million MT, coupled with sugar production of 30.7 million MT, and sugar exports of around 3-3.5 million MT in SY2019 (lower than the announced 5 million MT due to subdued global sugar prices) are likely to result in even higher closing stocks of around 12-12.5 million MT. To counter the negative impact of such high availability and to ensure timely payment for cane purchases, both the Central and state Governments have supported the sugar industry. These include revision in the minimum support price (MSP) to Rs. 31/kg from Rs. 29/kg, interest subvention loans for ethanol expansion, soft loans by the Central Government in addition to the cane subsidy and low-cost soft loans by the state government. The policy to produce ethanol from B-grade molasses as well as directly from cane juice has also been approved in addition to revising prices for ethanol from C-grade (revised to Rs. 43.7 in SY2019 from Rs. 40.85 per litre in SY2018). These policy changes are likely to address the current supply-demand imbalance in the industry over the medium term and help in meeting the 10% blending target under the Ethanol Blending Programme (EBP).

Liquidity position

BCML's liquidity position is comfortable with the average working capital utilisation of 26% of the drawing power during the period March 2018 to February 2019. BCML has an average cushion (drawing power less net utilisation) of ~ Rs. 630 crore 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 the 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 163.2 MW of saleable cogeneration capacity. The Saraogi family, the promoters, holds a 40.94% of the company's equity capital. The company is setting up a 160-KLPD distillery, which is expected to be operational by December 2019.

In 9M FY2019, the company reported a PAT of Rs. 284.82 crore on a total income of Rs. 2,958.44 crore against a PAT of Rs. 263.81 crore on a total income of Rs. 3,317.02 crore in 9M FY2018.

Key financial indicators (audited)

	FY2017	FY2018	9MFY2019 (Unaudited)
Operating Income (Rs. crore)	3467.17	4352.32	2958.44
PAT (Rs. crore)	592.29	221.12	284.82
OPBDIT/OI (%)	26.87%	10.67%	14.60%
RoCE (%)	24.19%	12.10%	-
Total Debt/TNW (times)	1.16	0.62	-
Total Debt/OPBDIT (times)	1.91	2.13	-
Interest coverage (times)	16.81	8.92	15.84

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount O/S [^] (Rs Crore)	Date & Rating Apr 2019	Date & Rating							
						In FY2018		In FY2017			In FY2016		
						March 2018	April 2017	March 2018	November 2016	March 2018	March 2016	March 2018	May 2015
1	Cash Credit	Long Term	2053.00		[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	Term Loan	Long Term	387.63	376.00	[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
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

*sublimit of fund based; ^as of 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	Cash Credit	NA	NA	NA	2053.00	[ICRA]AA (Stable)
NA	Non-Fund Based limits	NA	NA	-	(155.00)*	[ICRA]A1+

* sublimit of fund based

Source: Balrampur Chini Mills Limited

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