April 07, 2020

Balrampur Chini Mills Limited: Ratings reaffirmed

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	387.63	130.24	[ICRA]AA (Stable); Reaffirmed
Fund-based - Working Capital Facilities	1903.00	2003.00	[ICRA]AA (Stable); Reaffirmed
Fund-based - Working Capital Facilities	150.00	150.00	[ICRA]AA(stable)/[ICRA]A1+; Reaffirmed
Non-fund Based-Working Capital Facilities	(155.00)^	(170.00)^	[ICRA]A1+; Reaffirmed
Total	**3640.63**	**3483.24**	

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

Rationale

The rating action factors in BCML's integrated nature of operations and a comfortable financial risk profile, as reflected by a conservative capital structure, strong financial flexibility and healthy debt coverage indicators with long-term debt to OPBDITA of 0.79 times (annualised) and interest cover of 9.4 times, respectively in 9M FY2020. While the expected lower power tariff impacted the profitability of the cogeneration division in FY2020, the overall operating profitability is likely to remain healthy, driven by firm sugar realisations, better performance of the distillery segment as well as announcement of export subsidy for SY2020. The debt coverage indicators are also expected to remain healthy in the near to medium term. While ICRA notes that the total debt had increased during the last two financial years, the same was primarily due to interest-free working capital loans availed on account of maintenance of buffer stock as well as soft loans availed at a low interest rate under various Central/state Government schemes to fund additional distillery facilities. While the current lockdown is likely to result in some slowdown in demand from institutional customers, a significant impact on the operating performance appears unlikely. BCML has adequate cushion in working capital limits to absorb any temporary increase in inventory due to a slowdown in sales. 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 take into account the regulatory risks associated with the sugar industry, being susceptible to sudden changes in Government policies, although ICRA notes that recent interventions by both the Central Government and the state government, which included revision in minimum support prices, interest subvention loans for setting up of ethanol manufacturing facilities, soft loans and export subsidy, have supported the sugar industry and benefited integrated sugar producers like BCML. The sugar release mechanism, creation of a buffer stock, an expected lower sugar production in SY2020 along with sugar exports are likely to support the sugar prices in the near term. In addition, BCML's forward integration into cogeneration and distillery businesses continue to provide cushion against cyclicality in the sugar business. Higher prices for ethanol, coupled with a further increase in the distillery production next year, with the commencement of a new distillery of 160 KLPD in January 2020, would lead to higher profits from the distillery division. Consequently, the cash flows of the company would remain comfortable relative to debt servicing obligation. In addition, the company enjoys considerable financial flexibility emanating from a conservative capital structure and healthy headroom in working capital facilities.

Key rating drivers and their description

Credit strengths

Integrated nature of operations continues to provide cushion against cyclicality 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 165.2 MW of saleable cogeneration capacity at present. The integrated operating profile provides cushion against cyclicality in the sugar business. BCML remains exposed to the cyclical nature of the sugar industry, and the agro-climatic risks related to cane availability.

Increased proportion of high-yielding canes to support the company's recovery rates - Recovery rates for BCML have witnessed an improvement due to varietal change of sugarcane with developmental activities being undertaken by the company, leading to an improved cost of production. In FY2019, the recovery rates had improved to 11.58% against 10.84% achieved in FY2018, owing to benefits 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. 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. ICRA notes that the company had diverted around 38.5% cane into generation of B-heavy molasses in Q3 FY2020, which also impacted the sugar recovery. However, the same is likely to be compensated to a large extent through higher production in the distillery segment.

Conservative capital structure and healthy debt coverage indicators - The capital structure of the company is conservative with a debt to equity of 0.85 times as on March 31, 2019. Almost 80% of the debt was on account of working capital loans, implying a long-term debt to equity of 0.18 times. Long-term debt as on December 31, 2019 stood at around Rs. 464 crore against Rs. 376 crore as of end March 2019. The increase was on account of loans availed for setting up the newly commissioned distillery. However, 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 0.79 times (annualised) and interest cover of 9.4 times, respectively, in 9M FY2020. 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 firm sugar realisations.

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 Government of Uttar Pradesh's (GoUP) 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. Nonetheless, recent measures taken by the Central Government and the GoUP have supported the financial performance and liquidity of sugar mills.

Sugar mills remain vulnerable to industry cyclicality and agro-climatic risks - Domestic sugar production for SY2020 is expected to decline to ~26.5 million MT owing to a decline in production in Maharashtra and Karnataka due to unfavourable weather condition, adversely impacting the cane crop. With domestic consumption of ~ 26 million MT and exports of 4.0 million MT, the closing stock is expected to decline by almost 3-3.5 million tonnes in the current season. With the distillery capacities of major mills coming into production from SY2020, the diversion of B-heavy molasses towards ethanol production is likely to increase, thus keeping the increase in sugar production under check. 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: Adequate

BCML's liquidity position is comfortable with the low average working capital utilisation of 69% of the drawing power between February 2019 and February 2020. BCML has an average cushion (drawing power less net utilisation) of ~ Rs. 532 crore during this period. The debt repayment obligation of Rs. 83 crore in FY2021 and Rs. 106 crore in FY2022 can be comfortably met from the expected cash flow from operations.

Rating sensitivities

Positive triggers – While ratings upgrade in the near term appears unlikely, a sustained period of firm sugar prices driven by favourable demand-supply dynamics and/or favourable development in the regulatory environment resulting in lower volatility in cash flows would be triggers for ratings upgrade.

Negative triggers – Downward pressure on the rating could emerge in case of – 1) A prolonged period of soft sugar realisations or a decline in the recovery rate or an increase in cane costs or 2) any significant decline in ethanol realisations thus resulting in deterioration of the profitability and debt coverage metrics over an extended 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	Although BCML has two associates, as on March 31, 2019, 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 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 canes per day (tcd), 520 kilo litres per day (klpd) of distillery and 165.2 MW of saleable cogeneration capacity. The Saraogi family, the promoters, holds a 41.10% of the company's equity capital.

In FY2019, the company reported a PAT of Rs. 570.64 crore on a total operating income of Rs. 4,286.78 crore against a PAT of Rs. 221.12 crore on a total income of Rs. 4,343.71 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019	9MFY2020
Operating Income (Rs. crore)	4343.71	4286.78	3001.25
PAT (Rs. crore)	221.12	570.64	274.45
OPBDIT/OI (%)	10.49%	16.17%	14.68%
RoCE (%)	12.10%	18.47%	-
Total Debt/TNW (times)	0.62	0.85	-
Total Debt/OPBDIT (times)	2.17	2.55	-
Interest coverage (times)	16.81	8.76	9.40

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Rating (FY2021)			Current Rating	Rating History for the Past 3 Years								
		Type	Amount Rated	Amount Outstanding (Dec 2019)	Current Rating	FY2020		FY2018		FY2017				
					7-Apr-2020	30-Aug-2019	4-Apr-2019	16-Mar-2018	20-Apr-2017	20-Feb-2017	28-Nov-2016	11-Nov-2016	27-Jun-2016	06-Apr-2016
1	Fund Based Limits	Long Term	2003.00	762.68^	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
2	Fund Based Limit	Long Term/Short term	150.00		[ICRA]AA (Stable)/[ICRA]A1+	[ICRA]AA (Stable)/[ICRA]A1+	-	-	-	-	-	-	-	-
3	Term Loan	Long Term	130.24	464.15	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)	-	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)
4	Non fund based Limits	Short Term	(170.00)*	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[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+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

**Sublimit of fund based; ^net utilisation*

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	130.24	[ICRA]AA (Stable)
NA	Fund Based Limits	NA	NA	NA	2003.00	[ICRA]AA (Stable)
NA	Fund Based Limits	NA	NA	NA	150.00	[ICRA]AA (Stable)/[ICRA]A1+
NA	Non-Fund Based limits	NA	NA	-	(170.00)*	[ICRA]A1+

** Sublimit of fund based*

Source: Balrampur Chini Mills Limited

Annexure-2: List of entities considered for consolidated analysis

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

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