Rating Rationale

DALMIA BHARAT SUGAR AND INDUSTRIES LIMITED

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Short-term bank facilities	200.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has assigned the short- term rating at 'CARE A1+' to bank facilities of Dalmia Bharat Sugar and Industries Limited (DBSIL). The rating derives strength from being a part of well-known and diversified 'Dalmia Bharat Group' having leadership position in core sectors including cement and sugar, the company's long track record of efficiently running forward integrated sugar mills with bagasse-based cogeneration, molasses and grain- based distillery through its geographically diversified plants in two major cane growing regions Uttar Pradesh and Maharashtra reflecting the company's ability to wither out the region specific agro-climatic fluctuations and command better cane cost, power tariffs due to different pricing mechanism in both the states.

The rating also factors in the company's comfortable financial risk profile backed by its healthy scale of operations and profitability derived from strong and industry leading operational efficiencies with robust gross recovery rates in the range of 11-12% and robust cash generation with growing non-sugar operating profitability. The rating also takes note of the company's ability to successfully implement and ramp up the enhanced capacities though organic and inorganic route as demonstrated in past as it has grown from 36,500 TCD in FY21 to 41,950 TCD in FY24 in sugar, 305 KLPD in FY21 to 950 KLPD in FY24 in distillery segment including the recently bought entity Baghauli Sugar and Distillery Limited; (BSDL; a wholly owned subsidiary of DBSIL; currently distillery is under implementation) from NCLT. DBSIL also enjoys strong financial flexibility from being a part of the Dalmia Bharat Limited Group and the market value of its investments in the latter.

CARE Ratings expects DBSIL's credit metrics to remain strong with debt levels at comfortable level going forward as well, while the company will continue to work towards expanding its current scale and profitability by undertaking the capex. DBSIL's revenue will be driven by enhanced distillery volumes and stable sugar realisations in the medium term. However, rating strengths are partially offset by the company's exposure to cyclical and seasonal sugar industry, working capital intensive operations given the seasonality in industry and highly regulated by government with sugar being an essential commodity.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors- Not applicable

Negative factors

- Any significant decline in operational metrics (cane yield, recovery, volumes and prices among others) and material change in government policies that may adversely impact the financial risk profile of the company.
- Higher than envisaged debt funded capex significantly impacting the debt protection metrics with Total Outside Liabilities to Tangible Net Worth (TOL/TNW) above 1x.
- Interest coverage below 8 times on sustained basis.

Analytical approach: Consolidated

Consolidated approach has been followed by CARE Ratings, including the recently bought entity 'Baghauli Sugar and Distillery Limited; (BSDL; a wholly owned subsidiary) engaged in similar line of business and expected to contribute towards the overall performance of DSBIL going forward. List of entities consolidated given in Annexure-6.

Outlook: Not applicable

Detailed description of key rating drivers:

Key strengths

Part of well-known Dalmia Bharat Group with long track record of operations

DBSIL is a part of well-known 'Dalmia Bharat Group'. DBSIL has a diversified lender base, and being a part of the Dalmia group, enhances DBSIL's access to banks and market for meeting its funding requirements.

Further, DBSIL holds equity investment in group entity 'Dalmia Bharat Limited', which is the listed entity (with market cap ₹32,700 crore) and investment holding company for the group's cement business. DBSIL has outstanding (o/s) investment worth with fair value of ₹621.03 crore as on March 31, 2024, which constitutes 21.32% of the company's net worth and this investment supports the company's financial flexibility in tandem with strong market valuation.

Geographically diversified forward integrated operations, cushioning cyclicality in sugar business and reducing exposure to agro-climatic conditions in a particular region

DBSIL's operations are well integrated with presence in sugar manufacturing of 41,950 TCD, bagasse-based cogeneration power having installed capacity of 138 MW and distillery capacity of 950 KLPD across Uttar Pradesh and Maharashtra through its six manufacturing units (four in Uttar Pradesh and two in Maharashtra) generating alternate revenue streams and acts as a cushion against cyclicality inherent in core sugar business to a large extent. Uttar Pradesh (UP) and Maharashtra, constitutes

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

over half of India's sugar production together, reducing the impact of region-specific agro-climatic conditions on the overall performance. Sugar production in UP earlier has seen some disruptions from infection affecting high-yielding cane varieties and the production in Maharashtra remained volatile, fluctuating with the rainfall conditions. Furthermore, these two states have different sugarcane price regimes. The diversification has also benefitted the company's power operations as co-gen tariffs have been more lucrative in Maharashtra than in UP post 2019 tariff revision in UP.

In FY24, sugar division contributed ~57.46% revenue (FY21: 78.13%) followed by distillery and power divisions, which contributed 37.71% (FY21: 16.29%) and 3.88% (FY21: 5.25%) of the total revenue, while remaining ~1% comes from others. However, the company's operations are moderately concentrated towards sugar, while contribution from ethanol/distillery is showing increasing trend, which also assists in achievement of better profitability margins.

In sugar season (SS) 2023-24, the government imposed restriction on diversion of sugar syrup and B-heavy molasses upto 1.7 million tonne towards ethanol production pursued out of decline in sugarcane yield and sugar output in SS 2023-24 to manage the domestic sugar consumption. The restriction was removed vide govt notification dated August 29, 2024, and this shall rationalise sugar inventory levels with mills and boost cash flows, considering higher ethanol production. Going forward, operational metrics across DBSIL's segments are expected to remain healthy and likely to support its cash flows.

Going forward, increased distillery capacity and removal of restriction on diversion from sugar syrup and B Heavy will drive revenue and profitability growth in the company. However, operations across three major segments remain exposed towards the risk of low cane yield and recovery rates due to rainfall trends and may impacts overall profitability and cash flows of the mills adversely.

Healthy scale of operations, strong operating efficiencies supporting improving profitability

DBSIL demonstrated a sustained and healthy growth trajectory in revenue, increased from ₹2,496.11 crore in FY21 to ₹3,284.65 crore in FY23 (compound annual growth rate [CAGR] of 8.39%) which slightly dipped to ₹2,932.37 crore in FY24 degrowth of 10.73% from FY23 owing to govt measures of putting ban on sugar exports and limiting diversion towards ethanol. This also caused the decline in revenue contibution from sugar segment from 64.23% in FY23 to 57.46% in FY24 for DBSIL.

In FY24, DBSIL crushed 59.76 LMT sugarcane (FY23: 53.75 LMT) with industry leading gross recovery of 11.64% in FY24 (FY23: 11.80%) from UP mills and 13.26% in FY24 (FY23: 13.28%) from Maharashtra which provides a competitive edge to the company. Profit before interest, lease rentals, depreciation, and taxation (PBILDT) per tonne of cane crushed for DBSIL is also healthy at ₹85 per tonne in FY24 (₹83 per tonne in FY23), which is driven by ethanol production from molasses and grain-based route. PBILDT margins has shown sequential improvement year on year from 11.39% in FY21 to 15.18% in FY24 which is primarily considering increasing contribution from ethanol and rise in sugar and ethanol realisations. However, there has been a significant rise in the company's closing inventory from 2,14,517 MT as on March 31, 2023 to 4,25,977 MT as on March 31, 2024 valuing ₹680.94 crore and ₹1,362.05 crore, respectively, the unsold inventory lying is a function of govt policy and quotas allocated to the mills and is beyond the control of the company. Team also notes that the increased inventory level locked up the realisation and resultant profits which led to lower revenue and cash flows in FY24, which shall be realised gradually in FY25 with the recent announcement of lifting diversion restriction towards ethanol and shall be the key growth driver for the company.

Comfortable financial risk profile with strong capital structure and coverage indicators

The company's financial risk profile is comfortable with strong net worth base of ₹2913.01 crore as on March 31, 2024, increased from ₹2142.47 crore as on March 31, 2021, against low term debt exposure, which is largely at incentivised interest rates and total debt outstanding of ₹1,430.47 crore as on March 31, 2024, increased from ₹957.89 crore as on March 31, 2021, mainly due to rise in WC borrowings with elevated sugar inventory levels moved from 2.15 LMT valuing ₹680.94 crore as on March 31, 2023, to 4.26 LMT valuing to ₹1,362.05 crore as on March 31, 2024, which subsequently reduced to 3.25 LMT as on June 30, 2024. Rise in WC borrowings is a temporary phenomenon commensurate with allocated sugar quotas to balance the sugar industry dynamics. Overall gearing stood comfortable at 0.49x as on March 31, 2024, compared to 0.45x as on March 31, 2021, while other coverage indicators improved including interest cover from 4.60x in FY21 to 8.92x in FY24. Total debt (TD) /PBILDT stood at 3.21x as on March 31, 2024 compared to 3.37x as on March 31, 2021. Net debt to PBILDT stood at 2.01x as on March 31, 2024, compared to 2.70x as on March 31, 2021, and interest coverage stood at 8.92x as on March 31, 2024, as against 4.60x as on March 31, 2021.

Going forward, the company will continue to work towards expanding its current scale by undertaking the capex through organic and inorganic route and has committed capex of close to ₹180-200 crore yearly in F25 and FY26 each for capacity expansion and debottlenecking which shall largely be incurred out of internal accruals. CARE Ratings expect debt metrics to remain comfortable in the near-to-medium term in absence of major debt funded capex.

In past years, DBSIL demonstrated successful implementation and ramp up capacity enhancements as it has grown from 36,500 TCD in FY21 to 41,950 TCD in FY24 in sugar, 305 KLPD in FY21 to 950 KLPD in FY24 in distillery segment. This expansion capex undertaken in past years reflects management's ability and commitment to scale up operations with timely implementation and sales ramp up.

Key weaknesses

Cyclical and regulated sugar industry

The industry is cyclical and is vulnerable to government policies for reasons like its importance in Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair and Remunerative Prices (FRP). All these factors impact cultivation patterns of sugarcane in the country and thus affect profitability of sugar companies. DBSIL's profitability, and other sugar mills, continues to remain vulnerable to the state government's policy on cane prices. Thus, the company's performance can be impacted by disproportionate increase in cane price in particular year. Furthermore, the profitability remains vulnerable to the government's policies on exports, MSP and remunerative ethanol prices. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, sharp contraction in sugar prices is curtailed after MSP's introduction by central government in June 2018. Furthermore, healthy exports and higher diversion of sucrose towards ethanol in the recent years resulted in favourable demand-supply dynamics in the country, thus resulting in improved realisations across the industry. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice by the industry is expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and cash flows from the sugar business. DBSIL has fared well and aptly sustained industry downturns over s and further also commands better cane prices due to plants being in two leading cane growing regions.

Working capital intensive operations
Sugar industry being seasonal has high working capital requirements in the peak season which is usually from November to April to procure their primary raw material, sugarcane and manufacture sugar in this period. Average working capital utilisation at maximum level for DBSIL for the last 12 months period ended on June 30, 2024, stood at 40.31% against total sanctioned limit of ₹1,250 crore, leaving adequate buffer in form of unutilised limits to absorb fluctuation in demand and prices. DBSIL has closing sugar inventory of 4.26 LMT valuing to ₹1,362.05 crore which led to elevated average inventory holding of 210 days as on March 31, 2024, compared to 151 days as on March 31, 2023, and operating cycle also elongated to 172 days as on March 31, 2024, from 134 days as on March 31, 2023.

Liquidity: Strong

DBSIL's liquidity profile is marked strong with net cash accruals of ₹358.31 crore in FY24 and expected NCA of over ₹400 crore in FY25-FY26 against negligible repayment obligations of ₹50 crore in FY25, ₹61 crore in FY26 and so on. The company had cash and liquid investments aggregating to ₹535.61 crore which is held in form of cash and bank balance- ₹470.64 crore, FDR- ₹57.03 crore and bonds- ₹7.94 crore as on March 31, 2024, which was used towards reduction of WC outstanding balance in Q1FY25 and presently has liquid investment of close to ₹7-8 crore as on June 30, 2024, while WC o/s reduced from ₹1,043 crore in March 2024 to ₹470 crore in June 2024. Major debt in books pertain largely to WC borrowings against which DBSIL has adequate inventory lying with them. Further, given the balance sheet strength, DBSIL has sufficient gearing headroom, to raise additional debt for its capex requirements, if needed. Its unutilised bank lines of over₹700 crore as on June 30, 2024, are adequate to meet its incremental working capital needs over the next one year.

Environment, social, and governance (ESG) risks: CARE Ratings believes that DBSIL's Environment, Social, and Governance (ESG) profile further supports its already comfortable credit risk profile. Sugar sector has a high impact on environment because of large energy and emissions and higher dependence on water resources. The sector has a high social impact because of its labour-intensive operations. DBSIL has been focused on mitigating its environmental and social impact continuously.

Environmental:
- DBSIL has been working towards water reduction in operations, usage of alternative fuels and raw materials and the mitigation and management of climate change impacts.
- The company undertakes R&D projects which increases sugarcane yield, sugar recovery, soil fertility and farmer's income.
- Recognising the importance of stringent pollution control, DBSIL has undertaken extensive modifications to their existing pollution control device
- DBSIL makes consistent investments in integrity, safety, health and environment. These attributes have been validated by certifications like Occupational Health and Safety Management (OHSAS), Environment Management System (EMS), Bonsucro, Food, Safety and Quality (FSQ).
- Recently, DBSIL implemented steam saving schemes and Jawaharpur grain distillery implemented MVR technology at Nigohi unit to save overall fuel and energy.

Social:
- The company incurs expenditure towards social development and skill training of its employees and ensures workplace injury prevention through employee well-being programs.
- Also, DBSIL undertakes CSR initiatives focused on healthcare, education, hunger, poverty and malnutrition, social equity, disaster management relief and rehabilitation, traditional art.

Governance:
- DBSIL Board comprises of six directors out of which three are independent directors and the board also has 16.66% of women representation.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar
Financial Ratios – Non financial Sector
Short Term Instruments
Consolidation

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

DBSIL is a part of the Dalmia Bharat Group and was incorporated in year 1951. DBSIL is an integrated sugar manufacturing company with presence into sugar, ethanol and cogeneration. It operates through its six (6) manufacturing plants located in the state of UP and Maharashtra with aggregate installed capacities of 41,950 Tons crush per day (TCD), 950 Kilo litres per day (KLPD) (out of which 100 is CWIP of Baghauli Sugar and Distilleries Limited (BSDL)) and 138 MW respectively. DBSIL recently acquired BSDL (100% subsidiary of DBSIL) from National Company Law Tribunal (NCLT) in December 2023 for a consideration of Rs. 141.85 crores.

Financial Performance- Consolidated:

Rs. Crore

For the Period Ended / as at March 31,	2022 (12m, A)	2023 (12m, A)	2024 (12m, A)
Working Results			
Net Sales	2,915.50	3,252.08	2,899.37
Total Operating Income	2,955.83	3,284.65	2,932.37
PBILDT	363.45	469.05	445.07
Interest	35.70	38.76	50.55
Depreciation	94.71	121.25	126.96
PBT (after exceptional items)	382.10	353.18	363.41
PAT	295.73	250.07	272.47
Gross Cash Accruals	376.65	382.06	396.76
Financial Position			
Equity Capital	16.19	16.19	16.19
Net-Worth	2,358.94	2,704.33	2,913.01
Total Capital Employed	3,338.60	3,377.61	4,610.48
Key Ratios			
Growth			
Growth in Total Income (%)	18.42	11.12	-10.72
Growth in PAT (after deferred tax) (%)	9.99	-16.49	9.73
Profitability			
PBILDT/Total Op. Income (%)	12.30	14.28	15.18
PAT (after deferred tax)/Total Income (%)	10.06	7.56	9.29
ROCE (%)	10.75	15.46	10.18
Solvency			
Debt Equity Ratio (times)	0.17	0.15	0.13
Overall Gearing Ratio (times)	0.35	0.17	0.49
Interest Coverage (times)	10.44	12.48	8.92
Term Debt/Gross Cash Accruals (years)	1.04	1.05	0.98
Total Debt/Gross Cash Accruals (years)	2.17	1.19	3.61
Term Debt/PBILDT (years)	1.08	0.86	0.87
Total Debt/PBILDT (years)	2.25	0.97	3.21
Liquidity			
Current Ratio (times)	2.04	2.70	1.55
Quick Ratio (times)	0.68	0.68	0.44
Turnover			
Average Collection Period (days)	17	18	17
Average Inventory Period (days)	189	151	210
Average Creditors Period (days)	39	35	54
Operating Cycle (days)	167	134	172

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Details of rated facilities: Please refer Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-5

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - ST-BG/LC	-	-	-	-	200.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-BG/LC	ST	200.00	CARE A1+				

LT: Long term; LT/ST: Long term/Short term

Annexure-3: Details of Rated Facilities:
1. Short Term Facilities

1.A. Non-Fund Based Limits

Sr. No.	Name of Bank / Lender	Rated Amount (Rs. crore)
1.	Punjab National Bank	97.50
2.	Axis Bank Ltd.	62.50
3.	Union Bank of India	25.00
4.	IDBI Bank Ltd.	15.00
	Total	**200.00**

Total Short Term Facilities : Rs.200.00 crore

Total Facilities (1.A) : Rs.200.00 crore

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Note on complexity levels of the rated instrument: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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(This follows our brief rationale for the entity published on October 03, 2024)

About CARE Ratings:
About CARE Ratings Limited: Established in 1993, CARE Ratings Ltd is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit. s

****For the detailed rationale report and subscription information,
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