India Ratings Affirms Dalmia Bharat Sugar and Industries' Bank Facilities at 'IND AA'/Stable

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India Ratings and Research (Ind-Ra) has affirmed Dalmia Bharat Sugar and Industries Limited's (DBSIL) bank facilities as below:

Details of Instruments

Instrument Description	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating Assigned along with Outlook/Watch	Rating Action
Fund-based working capital limit	-	-	-	INR3,775	IND AA/Stable/IND A1+	Affirmed
Term loan	-	-	31 March 2032	INR788.8 (reduced from INR916)	IND AA/Stable	Affirmed

Analytical Approach

Ind-Ra has changed its analytical approach from standalone and to take a fully consolidated view of DBSIL and its wholly owned subsidiary, Baghauli Sugar and Distillery Limited (BSDL), to arrive at the ratings, owing to the strong operating and strategic linkages between them. DBSIL acquired 100% equity shares in BSDL and became its holding company on 22 December 2023. The commercial production of BSDL commenced on 9 March 2024.

Detailed Rationale of the Rating Action

The ratings continue to reflect DBSIL's comfortable business profile, supported by integrated facilities and adequate liquidity. While the company's inventory increased sharply in FY24, due to the restrictions imposed by the government in December 2023 and the acquisition of BSDL, leading to a rise in the net leverage, Ind-Ra expects DBSIL's inventory levels to witness a gradual correction over the next few quarters as the restrictions were lifted for the ethanol supply year 2025 (ESY25; November 2024-October 2025). As a result, the net leverage is likely to reduce to below 1.5x by FY26 and remain at the levels witnessed in FY23 thereafter. The ratings are constrained by the inherently high working capital requirements due to the seasonal nature of the sugar business and the agro-climatic and regulatory risks.

List of Key Rating Drivers

Strengths

- Strong industry position; integrated operations mitigate industry cyclicality
- Diversified geographical presence in large cane producing states
- EBITDA likely to improve FY25-FY26 after decline over FY22-FY24
- Lifting of ethanol restrictions to gradually correct inventory levels
- Gradual inventory normalisation and EBITDA improvement to aid deleveraging

Weaknesses

- Profitability of grain-based distillery susceptible to fluctuations in grain prices
- Working capital-intensive business with high regulatory and agro-climatic risk

Detailed Description of Key Rating Drivers

Strong Industry Position; Integrated Operations Mitigate Industry Cyclicality: DBSIL has a long operational track of over 25 years and has a healthy business profile, given the integrated nature of its operations, starting from crushing of cane to ethanol production from molasses, as well as power generation from bagasse for captive consumption and merchant sale. The company's diverse product portfolio has broadened its risk profile and enhanced stability. Furthermore, the presence of allied revenue streams, ethanol and power provides cushion against the inherent volatility and cyclicality in the sugar business. The company is among the top five sugar producers in India with a cane crushing capacity of 41,950 tonnes crushed per day (tcd; including BSDL), molasses-based distillery capacity of 600 kilo litres per day (klpd) and grain-based distillery capacity of 250klpd, making it one of India's leading ethanol producers. Additional 100klpd cane-based distillery in its subsidiary is likely to get commissioned by April 2025 which would add to the EBITDA in FY26. It also has a cogeneration capacity of 138MW.

DBSIL reported a healthy gross recovery of 12.8% in FY24 (FY23: 12.2%; FY22: 12.3%), owing to the adoption of high-quality cane varieties and effective cane management techniques. Dependency on the CO 0238 cane variety, which has become prone to diseases over the past few years, has been reduced to around 50% in FY24 from 90% in the past and is likely to be reduced further to 40% in FY25. While the sugar division remains the major revenue driver, its contribution in revenue has gradually reduced to 58% in FY24 (FY23: 64%; FY22: 71%; FY21: 77%) with the share of distillery segment increasing to 38% (31%; 24%; 18%). Its EBITDA from the non-sugar divisions averaged around INR3.2 billion over FY22-FY24, owing to healthy distillery profits as well as cogeneration profits given the better tariffs in Maharashtra.

Diversified Geographical Presence in Large Cane Producing States: DBSIL is among the few integrated sugar company that has operations in the two largest sugarcane-producing states in India (Uttar Pradesh (UP) and Maharashtra), constituting over half of India's sugar production), reducing the impact of region-specific agro-climatic conditions on the overall performance. The sugar production in UP has seen some disruptions from infection affecting the high-yielding cane varieties and the production in Maharashtra has remained volatile, fluctuating with rainfall conditions in the state. Furthermore, the two states have different sugarcane price regimes and yields and recovery. The diversification has also benefitted the power operations of the company as co-gen tariffs have been more lucrative in Maharashtra than in UP. Although, the exports are not allowed since June 2022, the company has a geographical advantage with its Maharashtra-based plants being located closer to ports than its units in the land-locked UP.

EBITDA likely to Improve FY25-FY26 after Decline over FY22-FY24: DBSIL's consolidated EBITDA marginally declined to INR4.1 billion in FY24 (FY23: INR4.4 billion; FY22: INR4.4 billion), due to an increase in cane costs, weather and pest impact on output coupled with lower sales following the restrictions on exports and diversions. Its sugar sales volume declined to 0.42 million tonnes (mnt)in FY24 (FY23: 0.55mnt), due to the ban on exports even as domestic sugar sales increased to 0.42mnt (0.39mnt) on account of better allocation received during the early period. However, the sugar sales rose 38% yoy in 1HFY25 to 0.33mnt owing to higher inventory available to be sold during non-crushing period. As a result, DBSIL's EBITDA remained flat at INR1.8 billion in 1HFY25 despite the fall in distillery sales as a result of the restriction on diversion. After increasing 10%-12%yoy in 2HFY24, the average sugar prices were up 3% yoy to INR38.3/kg in 8MFY25 and are likely to remain range-bound in the near term.

However, Ind-Ra expects DBSIL's EBITDA to benefit from the commencement of operations in BSDL as well as the full impact of the Jawaharpur grain-based distillery capacity which commenced in 4QFY24. Furthermore, the company is taking cost efficiency measures and is likely to increase its consolidated distillery capacity by 12% which could push the EBITDA to over INR5.5 billion in FY26 and INR6 billion in FY27, according to the management, which would bring the scale of profits in line with the larger players in the industry. Ind-Ra expects the EBITDA margins to be at 12%-14% over the near term (FY24: 14.2%). Despite the likelihood of an increase in ethanol prices for ESY25, the government is yet to announce the prices for the year. An increase in cane prices not matched by increase in output prices could affect profitability.

Lifting of Ethanol Restrictions to Gradually Correct Inventory Levels: The rise in sugar prices in 8MFY24 amid the initial expectations of a fall in sugar production prompted the government to impose restrictions on ethanol sales through B-heavy molasses and cane juice routes for ESY24 in December 2023, capping the sugar diversion to ethanol to 2mnt (SS23: 3.8mnt). This move led to an increase in India's sugar inventory level to 8.6mnt at end-SS24 (end-SS23: 5.6mnt, normative level: 5.5-6mnt). DBSIL's sugar inventory, however, doubled to 0.43mnt in FY24 (FY23: 0.21mnt; FY22: 0.29mnt) significantly higher than Ind-Ra's expectations owing to a rise in production and lower sales due to absence of exports. However, given the sharp increase in the country's inventory, the government lifted the restriction in August 2024 for the ESY25 which would increase DBSIL's sugar diversion towards ethanol. As a result, Ind-Ra expects a gradual reduction in inventory over FY25-FY26 although it could remain higher than the FY23 levels unless exports are allowed.

Gradual Inventory Normalisation and EBITDA Improvement to Aid Deleveraging: With a substantial increase in inventory levels along with a slight decline in profitability, DBSIL's consolidated net leverage (total adjusted net debt/operating EBITDA) rose to 2.2x in FY24 (FY23: 0.7x; FY22: 1.4x). With a gradual reduction in the inventory and the improvement in its EBITDA, Ind-Ra expects DBSIL's net leverage to reduce to below 1.5x by FY26 and remain close to FY23 levels thereafter. Notwithstanding the decline, the gross interest coverage (operating EBITDA/gross interest expense) remained strong at 8.2x in FY24 (FY23: 11.6x; FY22: 12.7x) due to low finance cost on account of subvention scheme and is likely to remain comfortable in the near term. Of the total gross debt of INR14.3 billion at FYE24 (FYE23: INR4.5 billion), around 76% was working capital debt, rest was the long-term loans.

Profitability of Grain-based Distillery Susceptible to Fluctuations in Grain Prices: DBSIL has scaled up its grain-based distillery operations in the past two years, increasing its grain-based ethanol capacity to 250mnL in FY24 (FY23: 110mnL). This is besides its presence in cane-based ethanol production with capacity of 600klpd. The increasing contribution from distillery segment will increase the segment's contribution to the total profit. While it provides growth opportunity, the profitability would remain susceptible to fluctuations in raw material prices based on the adequacy of supply. While prices of grain-based ethanol are determined by the oil marketing companies, the input costs are based on the market demand-supply dynamics, making them inherently volatile unlike a cane-based distillery where cane prices are also fixed by the government.

Working Capital-intensive Business with High Regulatory and Agro Climatic Risk: The sugar business is inherently a working capital-intensive business, given the seasonality in the industry and higher levels of inventory holding, peaking in March-April. Inventory holding shot up to 330 days during FY24 (FY23: 163 days; FY22: 213 days) with the restriction on diversion due to which the net working capital cycle rose to 273 days in FY24 (FY23: 147 days; FY22: 188 days) with absolute net working capital requirements rising to INR15 billion in FY24 (FY23: INR9.8 billion).

The sugar industry is highly regulated, with sugar defined as an essential commodity under the Essential Commodities Act, 1955. Accordingly, the government intervenes using various measures such as monthly sales quota, export restrictions to prevent imbalance in sugar demand-supply and keep the prices in check. The government determines and fixes the remuneration (fair and remunerative prices) payable on sugarcane to the farmers before the start of the sugar season. Besides, the price of ethanol is also fixed by the government, while the quantity is fixed by oil marketing companies. Some states, including UP, also determine the fair price payable on sugarcane in the form of state advised price (SAP). While the central government had increased the fair and remunerative price of sugarcane by around 8% yoy to INR340/quintal for SS25, the UP government is yet to announce the SAP of sugarcane for the season.

Being an agro-based industry, the sugar business is susceptible to the vagaries of monsoons. The production and recovery from sugarcane heavily influences the performance of the sugar industry. In India, agriculture is primarily dependent on agro-climatic conditions. Rainfall conditions impact production yields and recovery from sugarcane, which affects the performance of sugar manufacturing companies.

Liquidity

Adequate: The company's total cash and cash equivalents stood strong at INR3.7 billion at September 2024 (FY24: INR5.3 billion, FYE23: INR1.7 billion, FYE22: INR2.1 billion) in addition to liquid investments in its group entity, Dalmia Bharat Limited. The monthly average utilisation of its fund-based working capital limits of INR12.5 billion stood at about 37% against its drawing power in the 12 months ended November 2024, with nil utilisation in the past four months, indicating the availability of adequate liquidity cushion. After being positive over FY20-FY23, DBSIL's cash flow from operations turned negative INR3.8 billion in FY24 (FY23: positive INR5 billion), due to a substantial increase in inventory levels. The cash flow from operations improved to INR7.6 billion in 1HFY25 (1HFY24: INR1.4 billion) driven by the release in inventory. With the gradual unwinding of inventory, Ind-Ra expects the cash flow from operations to likely improve over the near-to medium term.

Ind-Ra expects DBSIL to generate sufficient cash flows to meet its scheduled term loan repayments of INR400 million-550 million in FY25 and FY26 each. DBSIL has a diversified lender base, and being a part of the Dalmia group enhances DBSIL's access to banks and the market for meeting its funding requirements. Apart from regular capex of INR1 billion-1.5 billion, the management plans to undertake capacity expansion in BSDL with total cost of INR1.3 billion-1.4 billion to be commercialised by SS26, funded by a mix of debt and equity.

Rating Sensitivities

Positive: A significant and sustained increase in the scale of operating profit and improved credit metrics, on a sustained and consolidated basis, could lead to a positive rating action.

Negative: Any debt-funded acquisitions/capex or a sharp decline in the profitability and/or elevated inventory levels, leading to the net leverage sustaining above 2x and the working capital adjusted net leverage turning positive, on a sustained and consolidated basis, would lead to a negative rating action.

Any Other Information

Standalone Profile: During FY24, the company posted revenue of INR29.0 billion (FY23: INR32.5 billion), EBITDA of INR4.3 billion (INR4.4 billion), the net leverage of 2.1x (0.7x) and gross interest coverage of 8.6x (11.9x).

About the Company

DBSIL is a part of the Dalmia Bharat group. It started its sugar business in 1994 with 2,500tcd capacity. At present, DBSIL is an integrated sugar company with a cane crushing capacity of 41,950tcd, distillery of 850klpd and power cogeneration capacity of 138MW (across UP and Maharashtra).

Key Financial Indicators

Particulars (INR billion; Consolidated)	1HFY25	FY24	FY23
Revenue	18.9	29.0	32.5
EBITDA	1.8	4.1	4.4
EBITDA (%)	9.4	14.2	13.4
Interest coverage (x)	4.7	8.2	11.6
Net leverage (x; TTM)	0.1	2.2	0.7
Source: DBSIL, Ind-Ra			

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings	Historical Rating/Outlook		
				29 September 2023	26 August 2022	1 February 2022

Commercial paper	Short-term	-	-	-	WD	IND A1+
Fund-based working capital limit	Long-term/Short-term	INR3,775	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+	IND AA/Stable/IND A1+
Term loan	Long-term	INR788.8	IND AA/Stable	IND AA/Stable	IND AA/Stable	-

Bank wise Facilities Details

The details are as reported by the issuer as on (24 Feb 2025)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	HDFC Bank Limited	Fund Based Working Capital Limit	2775	IND AA/Stable/IND A1+
2	ICICI Bank	Fund Based Working Capital Limit	1000	IND AA/Stable/IND A1+
3	HDFC Bank Limited	Term Loan	788.8	IND AA/Stable

The details are as reported by the issuer as on (26 Dec 2024)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	HDFC Bank Limited	Fund Based Working Capital Limit	2775	IND AA/Stable/IND A1+
2	Yes Bank Ltd	Fund Based Working Capital Limit	1000	IND AA/Stable/IND A1+
3	HDFC Bank Limited	Term Loan	788.8	IND AA/Stable

Complexity Level of the Instruments

Instrument Type	Complexity Indicator
Fund-based working capital limit	Low
Term loan	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity- indicators.

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Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

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