Ratings

CRISIL

CONFIDENTIAL

RL/BALCHIN/311953/NCD/0223/52556/140522877
February 10, 2023

Mr. Pramod Patwari
Chief Financial Officer
Balrampur Chini Mills Limited
FMC Fortuna, 2nd Floor
234/3A, A J C Bose Road
Kolkata - 700020
9830404440

Dear Mr. Pramod Patwari,

Re: CRISIL Rating on the Rs. 140 Crore Non Convertible Debentures of Balrampur Chini Mills Limited

We refer to your request for a rating for the captioned Debt instrument.

CRISIL Ratings has, after due consideration, assigned a CRISIL AA+/Stable (pronounced as CRISIL double A plus rating with Stable outlook) rating to the captioned Debt instrument. Securities with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such securities carry very low credit risk.

Further, in view of your decision to accept the CRISIL Ratings, we request you to apprise us of the instrument details (in the enclosed format) as soon as it has been placed. In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL Ratings will be necessary.

As per our Rating Agreement, CRISIL Ratings would disseminate the rating along with outlook through its publications and other media, and keep the rating along with outlook under surveillance for the life of the instrument. CRISIL Ratings reserves the right to withdraw, or revise the rating / outlook assigned to the captioned instrument at any time, on the basis of new information, or unavailability of information, or other circumstances which CRISIL Ratings believes may have an impact on the rating. Please visit www.crisilratings.com and search with the name of the rated entity to access the latest rating/s.

As per SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crisil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us at debtissue@crisil.com for any clarification you may need.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Anil More
Associate Director - CRISIL Ratings

Nivedita Shibu
Associate Director - CRISIL Ratings

Details of the Rs. Rs.140 Crore Non Convertible Debentures of Balrampur Chini Mills Limited

	1st tranche		*2nd tranche*		*3rd tranche*	
Instrument Series:						
Amount Placed:						
Maturity Period:						
Put or Call Options (if any):						
Coupon Rate:						
Interest Payment Dates:						
Principal Repayment Details:	Date	Amount	Date	Amount	Date	Amount
Investors:						
Trustees:						

In case there is an offer document for the captioned Debt issue, please send us a copy of it.

CIN - L15421WB1975PLC030118
Reg. Off. : FMC Fortuna, 2nd Floor, 234/3A, A. J. C. Bose Road, Kolkata - 700 020
P : 033 2287 4749
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E : bcml@bcml.in
W : www.chini.com

BALRAMPUR CHINI MILLS LIMITED

11th February, 2023

National Stock Exchange of India Limited Listing Deptt., Exchange Plaza, 5th Floor, Plot No. C/1, G Block, Bandra Kurla Complex, Bandra (E), Mumbai-400051	**BSE Limited** The Corporate Relationship Department 1st Floor, New Trading Wing, Rotunda Building, Phiroze Jeejeebhoy Towers Dalal Street, Fort, Mumbai- 400001
Scrip Code: BALRAMCHIN	**Scrip Code:** 500038

Dear Sir/ Madam,

Ref: **Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Sub: **Update on Credit Rating**

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we would like to inform you that CRISIL (the Credit Rating Agency) has reaffirmed the long-term ratings as CRISIL AA+/Stable and short-term rating as CRISIL A1+. CRISIL has also rated Company's Non-Convertible Debentures as CRISIL AA+/Stable.

You are requested to take the above on record.

Yours faithfully,

For **Balrampur Chini Mills Limited**

Manoj Agarwal
Digitally signed by Manoj Agarwal
Date: 2023.02.11 16:37:27 +05'30'

Manoj Agarwal
(Company Secretary and Compliance Officer)

Rating Rationale

February 10, 2023 | Mumbai

Balrampur Chini Mills Limited

'CRISIL AA+/Stable' assigned to Non Convertible Debentures

Rating Action

Total Bank Loan Facilities Rated	**Rs.2447.65 Crore**
Long Term Rating	**CRISIL AA+/Stable (Reaffirmed)**

Rs.140 Crore Non Convertible Debentures	**CRISIL AA+/Stable (Assigned)**
Rs.900 Crore Commercial Paper	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA+/Stable'** rating to Rs.140 crore **n**on convertible debentures (NCD) of Balrampur Chini Mills Limited (BCML) and reaffirmed its ratings on the bank facilities and commercial paper at 'CRISIL AA+/Stable/CRISIL A1+'.

The ratings continue to reflect the dominant market position of BCML in North India, established relationships with farmers, diversified revenue profile, superior operating efficiencies and a strong financial risk profile. These strengths are partially offset by susceptibility of business performance to cyclicality in the sugar business, and to regulatory changes such as movement in State Advised Price (SAP) for cane in UP or the minimum selling price (MSP) for sugar.

Business risk profile continues to remain strong driven by growing diversity and healthy profitability from the distillery division, with ethanol produced being supplied at remunerative prices for blending with gasoline. Lower fluctuations in ethanol pricing, which is linked to price of sugarcane, has helped mitigate the volatility in business performance associated with sugar business. With the beginning of operations of the additional distillery capacity of 490 KLPD from December 2022 has resulted in overall capacity to be at 1050 KLPD from 560 KLPD as of March 2022, which will further benefit the operating performance of the company.

During sugar season (SS) 2021-2022, both the sugarcane availability and sugar recovery were impacted due to adverse weather conditions and red rot disease. This coupled with increase in sugarcane prices (which increased by Rs.25/quintal from SS 2021-22 onwards) resulted in increased cost of production for sugar. Average Sugar realizations, however witnessed a modest increase of only Rs.1.7/kg during H1FY23 over H1FY22, resulting in moderation in operating performance of sugar segment.

With lower cane availability, the distillery segment sold 9.30 cr BL in H1FY23 as against 9.42 cr BL in H1FY22. The revenue though lower at Rs.2193 crore in H1FY23 from Rs.2354 crore in H1FY22 benefitted from the improved realizations across both sugar and distillery segment. Operating margin stood at 1.3% in H1FY23 (H1FY22: 11.4%).

With the beginning of SS2023, cane crushing for the Company is estimated to be higher by ~12% in fiscal 2023 in comparison to previous fiscal. This combined with better recovery rates will result in higher production of sugar in H2FY23. This will in turn lead to increased sales quota for sugar, thus improving the sugar sales and profitability. The dual impact of commercialization of 1050 KLPD in H2FY23 and increased proportion of diversion of cane towards alcohol, will results in higher volumes across the distillery segment. The upward revision in ethanol rates for the Ethanol Supply Year 2022-23 will further augment the revenue from ethanol segment.

The profitability in H2FY23 will benefit from increased share of revenue from ethanol in the overall revenue with ethanol being a higher margin product. Overall operating margin is expected at 10-11% in fiscal 2023. Revenue is likely to grow at a healthy pace over the medium term, because of enhanced distillery capacities. Within the distillery segment as well, the company may focus on higher margin ethanol produced through cane syrup and B-heavy molasses, which will benefit the operating profitability of the company.

The financial risk profile continues to remain strong, supported by estimated adjusted networth of above Rs.2800 crore and annual cash accrual of over Rs.350 crore over the medium term. The capital expenditure (capex) of around Rs 1137 crore (increased from earlier estimation of ~Rs.980 crore) spread over fiscal 2022 and current year towards the distillery capacity expansion as well as modernisation of sugar units, is to be funded by overall debt of Rs 500 crore. Company has received sanction of Rs.360 crore in the form of long term debt and balance portion of Rs.140 crore will be raised through NCDs.

Despite incremental debt, the debt metrics will continue to remain comfortable over the medium term led by healthy profitability, lower interest rates due to interest subvention schemes as well as gradual reduction in debt levels. Interest cover is expected to be above 9.3 times over the medium term with total outside liabilities to adjusted networth (TOL/ANW) remain below 0.81 times.

Analytical Approach

Using the capital allocation approach, CRISIL Ratings has arrived at the adjusted networth of BCML by knocking off the investment in Auxilo Finserve Pvt Ltd (‘CRISIL A/Stable/CRISIL A1’), wherein BCML holds a 44.36% stake. As on September 30, 2022, the investments were valued at Rs 175 crore.

Key Rating Drivers & Detailed Description

Strengths:

Established market position and diversified revenue profile:

BCML is one of the largest integrated sugar producer in India. It has the capacity to crush 77,500 tons per day (TPD) of sugarcane, exportable (surplus) power capacity of 175.7 MW and distillery of 1050 KLPD. The company is the second largest player in terms of scale on a pan-India basis. It has ten sugar factories - eight in eastern UP and two in central UP, thus having access to a larger market in North India. One of the distilleries of 320 KLPD commissioned in Sugar Season 2023 will operate on dual feed i.e. sugarcane syrup during the season and B-heavy molasses / grains during the off-season, thereby ensuring utilization of the capacity throughout the fiscal, aiding the profitability

Fully integrated operations will enable all supplementary businesses associated with sugar, such as distillery and power, to become major contributors to profitability, and largely de-risk the sugar business model. The distillery business offers much higher and stable profit and returns, compared with the sugar business, and thus, help moderate impact of cyclicality the inherent in the sugar business. Additionally, the initiatives by Government for increasing diversion of sugarcane to ethanol instead of sugar has moderated the sugar business cyclicality to large extent and the same is expected to continue in future. Also, BCML will be diverting more cane towards producing B-heavy molasses (share of ethanol through B-heavy route to remain above ~50% of the overall volumes) and ethanol directly from cane syrup, which will lead to higher ethanol production. Owing to the same there will be no dependence on exports. Moreover, the ethanol prices are function of sugarcane price and cost of production of sugar, thus there is little chances of the same being lowered. In addition, any increase in fair and remunerative price (FRP) of cane will lead to corresponding increase in ethanol price. Further, increased ethanol production and sacrifice of sugar will lead to improved working capital cycle.

CRISIL Ratings believes that the company will continue to benefit from its dominant market position in the sugar industry and diversified revenue streams will continue to offset the cyclicality in sugar business.

Superior operating efficiencies:

BCML's superior operating efficiencies emanate from its fully integrated nature of operations, increasing contribution to profitability from higher margin distillery segment, healthy sugar recovery rates and higher capacity utilization leading to better absorption of fixed costs. The company's distillery capacity is adequate to utilize all the molasses produced through the crushing operations and cogen segment can cater to entire power requirement during the crushing season from the bagasse produced thereby resulting in fully integrated facilities.

The company has also been continuously engaging with farmers to produce early variety of cane along with implementing varietal change, which has more sucrose content and hence, fetches higher sugar recovery rates. Increasing use of early variety of cane has helped recovery rates rise to 11% and beyond since fiscal 2019 (though lower in fiscal 2022 due to impact of adverse weather condition and red rot disease) vis-a-vis 9.5- 10% recorded over fiscals 2013 to 2015. High recovery rates can lower the cost of production considerably, making BCML's credit profile less susceptible to increase in cane prices or fall in sugar prices.

The overall operating profitability will be driven by the distillery segment which fetches higher margins with increase in share of distillery segment from 19% in fiscal 2022 to 35% over the medium term. Profitability is aided by the annual hike in ethanol pricing announced by the GoI and Oil Marketing Company’s (OMC) (in case of Ethanol from grain route) over the last few years. Also, within distillery segment, the contribution from the higher margin B-Heavy route has been increasing.

CRISIL Ratings believes that BCML's operating performance will continue to be supported by its superior efficiencies and fully integrated nature of operations.

Strong financial risk profile:

Financial risk profile is characterized by strong capital structure and adequate debt protection metrics and liquidity. Absence of any significant debt-funded capex since fiscal 2008, and continuous debt repayment has helped reduce the long-term debt (outstanding at Rs 256.95 crore as on March 31, 2022). These term loans comprise soft loans under the state and central government schemes carrying a subsidized interest rate of ~4-5%.

BCML has undergone capex of about Rs 1137 crore during fiscal 2022 and fiscal 2023, funded by debt of Rs.500 crore and balance through internal accruals. The debt funding of Rs 500 crore will be competed in fiscal 2023. Despite this, overall debt metrics will remain strong, supported by healthy operating performance and significantly low-cost loans. Interest coverage and net cash accrual to debt ratio were healthy at 24.1 times and 0.44 times, respectively, for fiscal 2022, and are expected to remain healthy at 9-10 times and 0.2-0.3 times respectively in fiscal 2023. The TOL/ANW ratio, which was at 0.66 times as on March 31, 2022 would increase in fiscal 2023 to 0.8-0.9 times and then sustain at 0.4-0.7 times over the medium term. CRISIL Ratings believes that BCML's leverage levels will continue to be characterized by controlled debt. Any growth plans resulting in a sizeable long-term debt will remain a key rating sensitivity factor.

The company has also been buying back its shares at regular intervals though amounts have not been material. Any significant outgo on account of buy-back of shares, material increase in dividend payout or capital reduction, will also be a monitorable.

Weakness:
Susceptibility of business performance to downturn in the sugar business
Sugar prices are largely market driven and dependent on production for the sugar season and inventory levels prevailing in the country. Hence, higher production, which increases inventory levels, may lead to a steep fall in prices and impact profitability severely, as the cost of production is relatively sticky in nature. Monsoons too have a bearing on cane production and recovery rate of cane, impacting overall sugar production in the country. The downfall in sugar prices is cushioned by the MSP declared by the GoI (Rs 31/kg at present).

Additionally, the government has taken measures to encourage increased diversion of sugarcane to ethanol instead of sugar and promote exports in the past years so as to address the excess inventory situation and arrest the fall in prices. BCML may not be much impacted by sugar down-cycles, given its superior operating efficiencies, increasing contribution of the distillery segment and integrated nature of operations.

Exposure to regulatory changes in the sugar industry:
While sugar prices are market driven, the government is empowered to fix the price paid to cane growers annually. Sugarcane pricing is controlled through the SAP in UP, which is currently higher than the FRP. Though a higher SAP increases the cost of production for UP-based mills, greater use of early variety of cane, which are characterised by higher recovery rates, reduces the difference considerably for players such as BCML. Hence BCML's profitability, mainly of its sugar segment, remains vulnerable to material changes in the SAP and other regulatory changes in the sugar industry.

The GoI has showcased the intent to fasten the move to an ethanol-based economy, by advancing the 20% ethanol blending target (with gasoline) to 2025 from 2030. Additionally, the government has made supplies profitable by raising ethanol prices every fiscal, in addition to differential pricing for B-Heavy and the direct cane juice route and providing interest sops on loans for setting up ethanol-based distilleries. Any change in the regulatory stance and continuation of government support to sugar sector (including distilleries and ethanol pricing) are key monitorables.

Liquidity: Strong
Liquidity is supported by a sanctioned fund based working capital limit of Rs 2,000 crore, which was utilised to the extent of 44% for past 12 months ended December 31, 2022. The company has annual debt obligation of Rs 100-200 crore over fiscals 2023 and 2024, as against expected annual cash accrual of Rs 350-600 crore. Capex of around Rs 1137 crore will be funded with debt of Rs. 500 crores. Part of the said debt (Rs.360 crore) will be under the interest subvention scheme of the GoI for setting up of distillery. The balance portion of capex Rs.637 crores will be funded through internal accruals.

ESG Profile
CRISIL Ratings believes that BCML’s Environment, Social, and Governance (ESG) profile supports its already strong credit risk profile.
The Sugar sector has a high impact on the environment because of large energy and emissions as well as higher dependence on water resources. The sector has a high social impact because of its labor intensive operations. BCML has continuously focused on mitigating its environmental and social impact.

Key ESG highlights:
The Company’s co-generation power plants generate power from the use of bagasse, a waste generated from the manufacture of sugar. The generation of 72.72 crore units in 2021-22 substituted the use of fossil fuel, reducing greenhouse gas (GHG) emissions.

- The Company targets to achieve zero ground water extraction for industrial uses in sugar and power. To achieve the same, Company installed biological treatment base sugar vapour Condensate Polishing Unit (CPU) at the Kumbhi and Babhnan units on a pilot basis and was successful in achieving zero ground water extraction for both units.
- The Company engages in detailed investigations for all accidents and occurrences and the outcome thereof is discussed at various forums to eliminate recurrence. Further, Company engages in safety inspections and audits by a Safety Committee in addition to scheduled audits by competent persons / certification bodies.
- BCML’s governance structure is characterized by 57% of its board comprising independent directors (including two women independent directors), presence of investor grievance redressal mechanism and robust governance policies. The Company also has constituted an ESG Committee comprising 50% of its Independent Directors as members.

There is growing importance of ESG among investors and lenders. BCML’s commitment to ESG principles will play a key role in enhancing stakeholder confidence, given its high share of market borrowings in its overall debt and access to both domestic and foreign capital markets.

Outlook: Stable
CRISIL Ratings believes BCML will continue to benefit from its established market position, superior operating efficiencies of the sugar business and increasing contribution from the more stable and higher-margin distillery business. Moreover, the financial risk profile should remain strong, with healthy debt metrics.

Rating Sensitivity Factors
Upward factors
- Substantial increase in cash accrual driven by improvement in business diversity and establishing market leadership across multiple segments
- Sustenance of strong financial risk profile and further improvement in debt metrics; TOL/ANW below 0.4-0.5 times on sustained basis
- Healthy build-up of cash surplus

Downward factors

- Sharp drop in sugar and distillery realisations impacting profitability, including any movement driven by changes in government regulations
- Large debt-funded capex or acquisition or material infusion into the NBFC associate (Auxilo), impacting financial risk profile and debt metrics; TOL/ANW in excess of 1.5-1.7 times

About the Company

BCML is one of the largest sugar producers in India. Operations are forward integrated, into manufacturing ethanol, using molasses' a by-product of sugar, and power, using cogeneration from bagasse, generated out of sugar manufacturing. The company has 10 sugar mills in UP with a combined capacity of 77,500 tonnes per day (TPD) of sugarcane, 1050 KLPD of distillery and 175.7 MW of saleable cogeneration capacity. The Saraogi family, the promoters, held 42.42% of the equity capital ending March 2022 post the completion of the buyback.

Key Financial Indicators (CRISIL Ratings-adjusted numbers)

As on/for the period ended March 31	Unit	2022	2021
Revenue	Rs crore	4851	4816
Profit After Tax (PAT)	Rs crore	465	480
PAT Margin	%	9.6	9.9
Adjusted debt/Adjusted networth	Times	0.47	0.50
Interest coverage	Times	24.12	19.36

Any other information: Not applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Complexity Level	Rating Assigned with Outlook
NA	Commercial Paper	NA	NA	7-365 days	900	Simple	CRISIL A1+
NA	Non Convertible Debentures#	NA	NA	NA	140	Complex	CRISIL AA+/Stable
NA	Long Term Loan	NA	NA	Dec-2025	87.65	NA	CRISIL AA+/Stable
NA	Cash Credit@	NA	NA	NA	1600	NA	CRISIL AA+/Stable
NA	Cash Credit*	NA	NA	NA	200	NA	CRISIL AA+/Stable
NA	Cash Credit$	NA	NA	NA	200	NA	CRISIL AA+/Stable
NA	Term Loan	NA	NA	June-2027	360	NA	CRISIL AA+/Stable

#Yet to be issued
@Interchangeable with non-fund based facility of Rs 50 crore
**Interchangeable with non-fund based facility of Rs 40 crore*
$Interchangeable with non-fund based facility of Rs 15 crore

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2447.65	CRISIL AA+/Stable		--	04-08-22	CRISIL AA+/Stable	25-11-21	CRISIL AA+/Stable	20-04-20	CRISIL AA/Stable	CRISIL AA/Stable
			--		--	05-07-22	CRISIL AA+/Stable	23-04-21	CRISIL AA/Positive		--	--
Commercial Paper	ST	900.0	CRISIL A1+		--	04-08-22	CRISIL A1+	25-11-21	CRISIL A1+	20-04-20	CRISIL A1+	CRISIL A1+
			--		--	05-07-22	CRISIL A1+	23-04-21	CRISIL A1+		--	--
Non Convertible Debentures	LT	140.0	CRISIL AA+/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit@	575	HDFC Bank Limited	CRISIL AA+/Stable
Cash Credit*	200	ICICI Bank Limited	CRISIL AA+/Stable
Cash Credit$	200	Kotak Mahindra Bank Limited	CRISIL AA+/Stable
Cash Credit@	1025	State Bank of India	CRISIL AA+/Stable
Long Term Loan	50.15	HDFC Bank Limited	CRISIL AA+/Stable
Long Term Loan	37.5	ICICI Bank Limited	CRISIL AA+/Stable
Term Loan	140	HDFC Bank Limited	CRISIL AA+/Stable
Term Loan	220	State Bank of India	CRISIL AA+/Stable

This Annexure has been updated on 10-Feb-2023 in line with the lender-wise facility details as on 06-Dec-2021 received from the rated entity
@Interchangeable with non-fund based facility of Rs 50 crore
**Interchangeable with non-fund based facility of Rs 40 crore*
$Interchangeable with non-fund based facility of Rs 15 crore

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Sugar Industry
CRISILs Criteria for rating short term debt
Understanding CRISILs Ratings and Rating Scales

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For more information, visit www.crisilratings.com

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.

It is India’s foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

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