bajaj hindusthan ltd.
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October 20, 2014

DCS - CRD **BSE Limited** **First Floor, New Trade Wing** **Rotunda Building, Phiroze Jeejeebhoy Towers** **Dalal Street, Fort** **Mumbai 400 023** **Fax No. 2272 3719/ 2037** **Stock Code: 500032**	**National Stock Exchange of India Ltd.** **Exchange Plaza, 5th Floor** **Plot No.C/1, 'G' Block** **Bandra- Kurla Complex** **Bandra East** **Mumbai 400 051** **Fax No. 2659 8237/ 8238** **Stock Code: BAJAJHIND**

Dear Sirs,

Sub: Revision in Long-term and Short-term Bank Facilities rating

Pursuant to Clause 36 of the Listing Agreement, we would like to inform that Credit Analysis & Research Limited (CARE Ratings) has reviewed the credit rating for Company's bank facilities and Commercial Paper (CP) as follows:-

Sl. No.	Facilities	Amount (Rs. crore)	Rating	Remarks
1	Long-term Bank Facilities	4887.51	CARE BB (DOUBLE B)	Revised from CARE BBB+ (Triple B Plus)
2	Short-term Bank Facilities	800.00	CARE A4 (A Four)	Revised from CARE A2 (A Two)
Total facilities		**5687.51**		
3	Commercial paper*	200.00	CARE A4 (A Four)	Revised from CARE A2 (A Two)

**Sanctioned fund based working capital limits/MPBF (maximum permissible bank finance) shall be kept unutilized to the extent of the proposed CPs of Rs.200 crore. The bank limits will be kept unutilized to that extent throughout the tenure of the instrument.*

The rationale for the ratings is attached as Annexure 1.

Kindly take the same on record.

Thanking you,

Yours faithfully,
For Bajaj Hindusthan Limited

Pradeep Parakh
Group President (GRC)&
Company Secretary

Encl.: As above

Annexure I

Rating Rationale

Bajaj Hindusthan Ltd (BHL)

Ratings Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	4,887.51	CARE BB (Double B)	Revised from CARE BBB+ (Tripe B Plus)
Short-term Bank Facilities	800.00	CARE A4 (A Four)	Revised from CARE A2 (A Two)
Total Facilities	**5,687.51**		
Commercial Paper*	200.00	CARE A4 (A Four)	Revised from CARE A2 (A Two)

**BHL has given an undertaking to keep the sanctioned fund-based working capital limits / MPBF (maximum permissible bank finance) unutilized to the extent of the proposed CPs of Rs.200cr. The Bank limits will be kept unutilized to that extent throughout the tenure of the instrument*

Rating Rationale

The revision in the ratings of the bank facilities of Bajaj Hindusthan Limited (BHL) takes into account the weak financial performance of the company during 18-month period ended March 2014, which continued during Q1FY15 (refers to the period April 1 to June 30). The revision in the ratings also factors in BHL's substantial investment in project-stage group companies, its large debt repayment obligations in the short to medium term along with the high cane arrears of the company which need to be cleared within the stipulated time frame as per the Allahabad High court directive.

The ratings continue to remain constrained by the cyclical sugar industry, working capital intensive nature of operations and regulated nature of business.

However, the ratings continue to derive strength from BHL's experienced promoters and management team, long track record of operations, multi-location manufacturing setup, integrated nature of operations and established position in the industry.

Going forward, the company's ability to improve profitability amidst high State Advised Prices (SAP) and improvement in capital structure shall be the key rating sensitivities.

Background

BHL, a part of the 'Shishir Bajaj Group', is one of the largest sugar manufacturing companies in the country and also the largest industrial alcohol manufacturer in India. BHL has 14 sugar factories with an aggregate capacity of 1.36 lakh tonne of sugarcane crushed per day (TCD). It has six distilleries with capacity to produce 800 kilo litre per day (KLPD) of industrial alcohol and owns co-generation plants having power generating capacity of 449 MW. The company also has two Medium Density Fiber Board manufacturing plants with capacity of 35,000 MT per annum.

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

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Credit Risk Assessment

Deterioration in financial risk profile

During the 18-month period ended March 31, 2014, BHL reported net loss of Rs.1,533.12 crore on a total operating income of Rs.6,644.25 crore as against a net loss of Rs.234.57 crore on a total operating income of Rs.4262.63 crore during the 12-month period ended September 30, 2012. The losses have continued during Q1FY15 which amounted to Rs.146.63 crore on an operating income of Rs.979.68 crore. The State Advised Prices (SAP) for sugar cane in UP have been among the highest in the country and relatively low sugar realization during the past few years has led to cash losses during FY14 (refers to the period April 01 to March 31) and Q1FY15. Depsite the waivers and subsidies extended by the state government to sugar mills (in form of tax waivers and subsidies to the tune of Rs.11.03 per quintal), the cane cost remains higher than the sugar prices for the past few years leading to accumulation of losses. Furthermore, high interest expense as a result of high working capital utilization and additional debt rasied during FY14 has not only increased the losses but also adversely impacted the capital structure of the company. The company's overall gearing, resultantly, deteriorated from 1.39x as on September 30, 2012 to 2.45x as on March 31, 2014. The delay in crushing activities for the sugar season 2013-14 coupled with increase in sugar production during the 18-month period ended March 2014 led to high inventory level which was largely funded through creditors (including high cane arrears). The negative operating cycle during the year ended September 2012 thus increased to 17 days for the year ended March 2014.

Relatively high investment commitments towards group companies

The group has implemented a power project under Bajaj Energy Pvt Ltd (BEPL) and is currently implementing a 1,980 MW project under Lalitpur Power Generation Company Limited (LPGCL).

The total cost of this project being setup in LPGCL is estimated at Rs.12,112 crore being funded by way of debt to equity ratio of 73:27 (debt Rs.8,886 crore and equity Rs.3,226 crore). BHL has to maintain at least 26% equity stake in the project, the balance stake being owned by group companies. Out of the total equity commitment of approximately Rs.840 crore, BHL has invested Rs.765.27 crore in LPGCL till March 31, 2014. The project is scheduled to be completed by September 2015. The company also has large exposure towards its other group companies with the total loans & advances and investments in group companies amounted to Rs.3,533.47 crore as on March 31, 2014.

Long track record of operations and experienced promoters

The company was incorporated in 1931 under the name - The Hindusthan Sugar Mills Limited (HSML) by Mr Jamnalal Bajaj. Subsequently in 1988, HSML was renamed as BHL and the company gradually increased its capacity to become one of the largest sugar producers in the country.

Mr Shishir Bajaj, the present chairman and managing director, has over 39 years of experience in the sugar industry. He is assisted by his son, Mr Kushagra Nayan Bajaj, vice chairman & joint managing director in managing the business.

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Multi-location manufacturing setup

Multi-location facilities with proximity to sugar cane growing areas of Uttar Pradesh provides abundant supply of sugarcane, expedient crushing of sugarcane within a very short time of harvest ensures a better recovery of sugar and proximity of distilleries to the sugar mill reduces transportation costs (of molasses for alcohol manufacturing). The area of sugarcane sowing in UP is well-irrigated on account of presence in the Gangetic River belt, as a result, the sugarcane crop is relatively less dependent upon the vagaries of monsoons compared to other parts of the country. However, the company is also exposed to geographical concentration risk as all its sugar mills are located in UP and are thereby susceptible to the state government policies.

Diversified revenue streams

BHL is forward integrated into cogeneration and distillery operation that partially de-risk the losses from core sugar business of the company to some extent. The company had a distillery capacity of 800 KLPD and power generation capacity of 449 MW. The total sales mix of the company comprises of sugar (75% to total sales), distillery (10%), power (9%) and others (6%). Since the exposure of the company in sugar segment is significant, the losses arising from sugar (Rs.1,213.19 crore) has offset the marginal profits of other divisions leading to an operating loss (before interest and other un-allocable expenses).

Regulated nature of sugar business

The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government fixes the raw material prices (sugar cane) in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP) to regulate the sugar industry. The government in the past has partially relaxed control over the sugar industry which however fell short of reviving the sugar industry. The recently announced measures including raising import duty on sugar from 15% to 25%, extension of export subsidy (Rs.3,300 per tonne), proposed increased proportion of mandatory blending of ethanol with petrol from 5% to 10% and provision of interest free loans to sugar mills for repayment of cane arrears (Rs.4,400 crore) is expected to firm up sugar prices in the near future. However, alignment of the sugar prices with the cane prices remains unaddressed. The sugar industry has been struggling to cope up with low realizations, continuous losses, high cane prices, mounting debt and high cane arrears. Furthermore, as per the recent directive from the Allahabad High Court (dated September 5, 2014), the sugar mills have been extended time till October 31, 2014, to clear the cane arrears by liquidating their sugar stocks. The company's cane arrears have reduced from Rs.2,576 crore as on March 31, 2014 to Rs.1,991.86 crore as on June 30, 2014 in line with liquidation of sugar inventory, however large debt repayment obligations coupled with limited time frame for clearance of entire cane arrears may exert pressure on company's cash flow. Furthermore, the sugar mills in Uttar Pradesh have given a notice for suspension of crushing activities for the upcoming sugar season 2014-2015 until the recommendation of Rangarajan committee towards revenue sharing model is adopted by the state (as in the states of Karnataka and Maharashtra). The sugar companies are currently under negotiation with the UP state government for the resolution of the issue.

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Prospects

The prospects of the BHL shall be governed by an early resolution of the dispute with state government to commence crushing operations and its ability to generate adequate cash accruals. Further the ability of the company to de-risk its model by increasing contribution of other value added and diversified products shall be crucial in improving their profitability and liquidity.

Financial Performance

(Rs. Cr)

For the period ended,	*Sep-2011* *(12m, A)*	*Sep-2012* *(12m, A)*	*Mar-2014* *(18m, A)*
Working Results			
Total Operating income	4903.80	4262.63	6644.25
PBILDT	850.45	457.76	-77.58
Interest	641.12	661.28	1127.50
Depreciation	330.91	348.82	531.72
PBT	18.94	-321.32	-1508.06
PAT (after deferred tax)	12.00	-234.57	-1533.12
Gross Cash Accruals	347.22	27.50	-987.42
Financial Position			
Equity Share Capital	22.84	63.94	63.94
Net worth	3227.65	4094.28	2559.24
Total Debt	5196.73	5708.00	6274.67
Key Ratios			
Growth			
Growth in Total income (%)	70.65	-13.07	3.91
Growth in PAT (after D.Tax) (%)	-76.81	NM	NM
Profitability			
PBILDT/Total Op. income (%)	17.34	10.74	-1.17
PAT (after deferred tax)/ Total income (%)	0.24	-5.20	-22.10
ROCE (%)	7.09	1.44	-8.33
RONW (%)	0.37	-6.38	-45.66
Solvency			
Long Term Debt Equity ratio (times)	1.17	0.59	1.25
Overall gearing ratio (times)	1.61	1.39	2.45
Interest coverage(times)	1.33	0.69	NEG
Term debt/Gross cash accruals(years)	10.86	88.06	NEG
Total debt/Gross cash accruals(years)	14.97	207.56	NEG
Liquidity			
Current ratio(times)	0.68	0.67	0.68
Quick ratio(times)	0.58	0.55	0.32
Turnover			
Average collection period (days)	15	18	17
Average creditors (days)	195	85	131
Average inventory (days)	108	49	131
Operating cycle (days)	-72	-17	17

Note: NEG = Negative, NM = Not Meaningful

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Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

