Mawana Sugars Limited

September 01, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long Term Bank Facilities	298.75 (Enhanced from 296.30)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Revised from CARE BB+ (Double B Plus) and removed from Credit watch with Developing Implications; Stable outlook assigned
Long Term / Short Term Bank Facilities	1.25 (Reduced from 3.70)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Revised from CARE BB+ / CARE A4+ (Double B Plus / A Four Plus) and removed from Credit watch with Developing Implications; Stable outlook assigned
Total Bank Facilities	**300.00 (Rs. Three Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Mawana Sugars limited (MSL) factors in the significant reduction in debt levels leading to improvement in financial risk profile of the company. The revision also factors in the improvement in the profitability levels of the company during FY21 (refers to the period from April 1 to March 31). The ratings continue to derive comfort from the diversified revenue streams and integrated business model with co-generation and distillery operations. The ratings also continue to derive strength from the experienced promoter and long-track record of operations of the company. The ratings are however, constrained by the cyclical nature of industry, exposure towards subsidiaries/associates, working capital intensive nature of operations and regulated nature of business.

The credit watch with developing implications is removed on account of successful completion of sale of its Siel Chemical Complex unit before the year ended March 31, 2021. The company has exited from the chemical business and transferred the unit to Bodal Chemicals Limited for a lumpsum consideration of Rs. 148.45 crore with a gain of Rs. 111.87 crore. The proceeds were majorly utilized to reduce the term debt and cane arrears. Further, the stable outlook reflects CARE's expectation of sustained income and profitability in the near to medium term.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability of the company to increase its scale of operations by more than 20% from its current levels on a sustained basis
- Improvement in PBILDT margins above 8.00% on a sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in profitability as marked by PBILDT margin below FY21 level on a sustained basis
- Adverse changes in government policies affecting the operations and cash flow of the entity
- Any significant investment in the subsidiaries leading to deterioration in adjusted overall gearing beyond 1.25x
- Significant increase in working capital requirements and resultant weakening of liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

Significant reduction in debt levels leading to improvement in financial risk profile

As on March 31, 2021, the total debt of the company reduced significantly to Rs. 277.32 crore from Rs. 486.88 crore as on March 31, 2020 on account of prepayment of term loans by Rs. 90 crore in addition to the scheduled repayment of Rs. 126 crore for FY21. The same led to improvement in overall gearing to 0.71x as on March 31, 2021 as against 1.53x as on March 31, 2020. The debt coverage indicators also improved owing to improved profitability and reduced debt. The total debt to GCA improved and stood at 1.80x as on March 31, 2021 (PY: 8.68x).

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

Integrated business model

MSL's sugar division is fully integrated with forward integration into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent. MSL operates 19,000 tonne crushed per day (TCD) of sugar capacities, which are forward integrated into power and alcohol business with cogeneration capacity of 53.50 megawatt (MW) and ethanol capacity of 120 kilo litre per day (KLPD). During FY21, sugar, power and distillery contributed at 84.67%, 1.59% and 12.38% respectively to gross sales.

Diversified revenue streams marked by improved profitability in FY21

The total operating income of the company remained stable with a moderate growth rate of 5% on y-o-y basis in FY21. Though the same is not comparable to FY20 as it does not include the income from chemical division. However, the increased sales from sugar and distillery segment led to a stable topline. The sale from sugar segment increased by 23% y-o-y owing to higher capacity utilization at 86% (PY: 81%). Further, the distillery segment recorded highest ever sales of Rs. 167.74 crore in FY21 (PY: Rs. 74.60 crore) since its inception. The increase is mainly on account of installation of incinerator boiler in FY20 which led to increase in operational days and increased ethanol blending targets by the government to 20% leading to rise in demand for ethanol. Additionally, the company operated the distilleries on 'B'-heavy molasses in FY21 prompting a higher net realization of Rs. 49.69 per litre in FY21 (PY: Rs. 44.77 per litre) for ethanol. Consequently, the PBILDT margin of the company also improved by 100 bps in FY21 and the company reported a margin of 6.86% in the said period (PY: 5.86%).

Experienced promoters and long track record of operations

MSL has been in business for more than 60 years and was promoted by Mr. Sidharth Shriram. The overall operations of the company were being looked after by Mr. Siddharth Shriram for the last financial year. However, subsequent to the demise of Mr. Shriram in May 2021, the board has appointed Mr. Ravinder Singh Bedi as the chairman with effect from May 31, 2021. Mr. Bedi is a graduate of the National Defense Academy and has an experience of more than 4 decades. Mr. Bedi has served in various capacities in the government of India for around 43 years. He is ably supported by Mr. Dharam Pal Sharma, Whole Time Director of the company having experience of more than 4 decades in the sugar industry.

Key Rating Weaknesses

Working capital intensive nature of operations

Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The company has high working capital requirement during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. Though the company has de-risked their model by reducing dependence on sugar to some extent, the fortune of sugar segment may affect the overall profitability and fund requirement. The maximum working capital utilization for past 12 months ended June 2021 stood at more than 90%.

Exposure towards subsidiaries/associates

The company has exposure towards subsidiaries and associates in the form of investments and loans and advances which is not yielding any return to the company. The same stood at Rs. 89.53 crore as on March 31, 2021 though declined from Rs. 102.43 crore as on March 31, 2020. The adjusted overall gearing stands at 0.92x as on March 31, 2021 (PY: 2.27x). Going forward, any increase in the group exposure towards subsidiaries/associates shall remain negative from the credit perspective.

Cyclical & 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 on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

Liquidity: Adequate

The adequate liquidity is characterized by sufficient cushion in projected cash accruals of more than Rs. 50 crore as against the debt repayment obligations of Rs. 33.70 crore for FY22. The maximum utilization of working capital limits stood at more than 90% for last twelve months ended June 2021. Further, the company has moderate cash balance of around Rs. 33 crore as on June 30, 2021 supported by above unity current ratio in FY21.

Analytical approach: Standalone

Applicable Criteria

CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings

CARE's Policy on Default Recognition

CARE's methodology for Short-term Instruments
Rating Methodology – Sugar Sector
Rating Methodology-Manufacturing Companies
CARE's methodology for financial ratios (Non-Financial sector)
Liquidity Analysis of Non-financial sector entities

About the Company

Incorporated in 1961, MSL is a part of the Siddharth Shriram Group. Siddharth Shriram group is a diversified group with business interests into sugar, chemicals, and edible oils among other things. The Group has been operating in the sugar industry for the last 70 years.

MSL is currently engaged in the manufacturing and marketing of Sugar, Ethanol and Co- generation of Power at its units at Mawana Sugar Works, Mawana, Distt. Meerut, (U.P.) and Nanglamal Sugar Complex, Nanglamal, Distt. Meerut (U.P). As on June 30, 2021, the company had an installed capacity of 19000 TCD for sugar, 53.50 MW for power and 120 KLPD for manufacturing of ethanol. Till FY21, the company also had the capacity of 82,500 MTPA for manufacturing of caustic soda and 73,095 MTPA for chlorine under its chemical division. However, the chemical division was sold to Bodal Chemicals Ltd before the year ended on March 31, 2021 leading to the exit from chemical business for MSL.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	1404.43	1472.23
PBILDT	82.35	101.00
PAT after discontinuing operations	-79.68	74.38
PAT before discontinuing operations	-79.68	93.37
Overall gearing (times)	1.53	0.71
Interest coverage (times)	3.33	2.87

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	1.25	CARE BBB-; Stable / CARE A3
Fund-based - LT-Term Loan	-	-	Feb 2024	18.75	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	280.00	CARE BBB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	1.25	CARE BBB-; Stable / CARE A3	-	1)CARE BB+ / CARE A4+ (CWD) (18-Feb-21) 2)CARE BB+; Stable / CARE A4+ (05-Oct-20)	1)CARE BB+; Stable / CARE A4+ (09-Oct-19)	1)CARE BB; Stable / CARE A4 (08-Feb-19)
2.	Fund-based - LT-Term Loan	LT	18.75	CARE BBB-; Stable	-	1)CARE BB+ (CWD) (18-Feb-21) 2)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (09-Oct-19)	-
3.	Fund-based - LT-Cash Credit	LT	280.00	CARE BBB-; Stable	-	1)CARE BB+ (CWD) (18-Feb-21) 2)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (09-Oct-19)	-

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-Working Capital Limits	Simple

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

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