Bannari Amman Sugars Limited

December 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	817.75 (Reduced from 838.50)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	15.00 (Reduced from 15.40)	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	10.00	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**842.75 (Rs. Eight Hundred Forty-Two Crore and Seventy-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bannari Amman Sugars Limited (BASL) continue to factor in the well- established and long track record of the company in the sugar industry, integrated nature of operations with income from distilleries and power including income derived from the granite business. The ratings also factor in the geographically diversified presence of manufacturing units to an extent, stable total operating income during FY21, comfortable operating profit margin and comfortable capital structure as on March 31, 2021. The ratings also take note of the moderation in profits in FY21 (refers to the period April 01 to March 31) and H1FY22 driven by stable crushing and consequent moderation in sugar sales volumes. The ratings, however, continue to be constrained by the lower sugarcane recovery rates, susceptibility of the revenues and profitability to the demand-supply dynamics, susceptibility to agro-climatic conditions, cyclical and highly regulated nature of the industry.

Rating Sensitivities

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

- Increase in revenues and profitability on sustained basis supported by improvement in recovery rates on sustained basis

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

- Increase in overall gearing above 1.5 times on sustained basis along with increase in term debt to GCA of above 4 times
- Prolonged down trend in the sugar industry impacting revenue and profitability leading to PBILDT margin less than 10% on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Established track record in sugar industry

BASL is the flagship company of the group and boasts of a successful operational track record of over 30 years in the sugar industry. BASL started production with a single sugar unit in Tamil Nadu with an installed capacity of 1,250 Tonnes Cane per day (TCD). The capacity was increased in phases through expansion in the existing units and also by addition of new units to the current level of 23,700 TCD. Presently, the company has two units located in Karnataka (Mysore and Chamarajanagar district) and three units in Tamil Nadu (Erode, Thiruvannamalai and Kallakurichi district).

Integrated nature of operations; units present in Tamil Nadu and Karnataka providing geographical diversification to an extent

BASL is engaged in the manufacture of sugar, industrial alcohol, bio products, granite products and generation of power through sugar co-gen and windmills. As on September 2020, BASL has aggregate capacity of 23,700 TCD spread across five units (two in Karnataka & three in Tamil Nadu), two distilleries with a combined capacity of 127.5 KLPD and 129.8 MW of co-generation capacity with six power plants. The company is also in the process of enhancing its distillery capacity in Nanjangud (Karnataka) unit from 60 –KLPD to 150–KLPD and modernisation of Tamil Nadu distillery. The company also has 7 wind mills having capacity of 1,250 kW each aggregating 8.75 MW, in the southern part of Tamil Nadu. Also adjacent to Sugar unit – I, the company has a granite unit which is 100% EOU, processing polished granite slabs and tiles.

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

Stable revenue and profit levels in FY21 and H1FY22 albeit with slight moderation

During FY21, BASL's revenues moderated (-2.74%) driven by stability in sugar revenues which was primarily driven by cane availability and crushing. During FY21, sugar sales volume stood at 34.78 lakh quintals against 38.25 lakh qunitals in FY20. Overall crushing remains stable in FY21 driven by feasible cane availability at Karnataka based units. Power sales volume remained almost flat and majority of the sales was to various state discoms. During FY21, BASL registered PAT of Rs.92 crore and GCA of Rs.159 crore on TOI of Rs.1,566 crore as against PAT of Rs.96 crore and GCA of Rs.169 crore on TOI of Rs.1,612 crore in FY20. Moderation in profits was largely due to lower sugar sales volume leading to under absorption of fixed costs.

Performance of the company continued to improve in H1FY22 with the company reporting marginally better revenues (+11.35%) compared to H1FY21. The growth was largely driven by increased revenues in its core sugar business (driven by both sales volume and value). Supported by stable realization across products PBILDT margin decreased marginally by 400 bps in H1FY22 on y-o-y basis.

Capital structure continues to be comfortable; low dependence on long-term borrowings

BASL's capital structure continues to remain comfortable with overall gearing of 0.64 times as on March 31, 2021 (PY:0.78 times). Debt equity ratio remained comfortable at 0.15 times as on March 31, 2021 as against 0.21 times as on March 31, 2020. Working capital borrowings decreased as on March 31, 2021 as against the previous year. Capitalization and coverage indicators continued to remain at comfortable levels during H1FY22 with BASL's debt equity ratio and overall gearing at 0.63 times and 0.17 times as on September 30, 2021.

Moderate capital expenditure plans going forward

BASL is in the process of incurring capex of Rs.150 crore spread across FY20 - FY22 for the purpose of (1) expanding its distillery capacity in Karnataka from 60 KLPD to 150 KLPD and (2) addition of capacity to manufacture Ethanol from B-Heavy Molasses and Sugarcane Juice. The same is being funded by term debt of Rs.75 crore (sanctioned), Sugar development loan of Rs.46 crore (sanctioned) and remaining through internal accruals. BASL has completed capex of around Rs.110 crore till FY21 and a further Rs.25 crore during YTD FY22 (till October 31, 2021) on the same. The remaining amount is expected to be incurred and completed before March 2022. This apart, BASL plans to modernize its distillery in Tamil Nadu for a total expenditure of Rs.50 crore beginning February 2021. The same is expected to be completed by end of Q4FY22 and aid the company in increasing the alcohol yield. However, compared to the net worth of the company (Rs.1,370 crore as on September 30, 2021) the capital expenditure outlay is relatively small.

Key Rating Weaknesses

Continuation of low sugarcane recovery trends for southern states

The varietal change of sugarcane helped improve recovery rates for sugar mills operating in the northern states of India. However, the same varieties did not yield similar results in the southern states resulting in lower recovery rates for BASL. While recovery rates for BASL has been in the range of 9.0-9.8% for the past five years ended March 31, 2021, sugar mills in the northern states, especially Uttar Pradesh have been able to report recovery rates in the range of 12%. Higher recovery rates lead to reduction in cost of production of sugar thus supporting margins.

Susceptibility of the revenues and profitability to the demand-supply dynamics along with cyclical and regulated nature of sugar industry

Sugar industry is highly regulated industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies. These apart operations are susceptible to cane availability which is a challenge due to adverse climatic conditions. India also continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government.

Industry Outlook

India's sugar production is pegged lower by 2.18 per cent to 30.5 million tonnes in the ongoing 2021-22 season, as a record 3.4 million tonnes of sugar will get diverted towards production of ethanol, the total acreage under sugarcane in the country is estimated to be around 52.68 lakh hectares in 2020-21 SS, which is about 9% higher than 2019-20 sugar season's cane area of 48.41 lakh hectares. The Government of India has set 10% blending target for mixing ethanol with petrol by 2022 and 20% blending target by 2030. With a view to achieve these blending targets, Government is encouraging sugar mills and molasses based standalone distilleries through various financial assistance to enhance their ethanol distillation capacity. While the international sugar prices have improved, domestic wholesale sugar prices continue to remain range-bound (Rs.33 per kg – Rs.34 per kg) for the past 3 years (SS 2017-18 to SS 2020-21) due to high inventories. It is to be noted that the prices are mainly backed by revision in Minimum Support Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg in June 2018. Subsequently, the industry has been looking forward for a hike in sugar MSP to Rs.34-35 per kg for quite some time now.

Liquidity: Strong
As on March 31, 2021, BASL's capital structure continues to remain comfortable with overall gearing of 0.64x (PY: 0.78x) and Debt-equity ratio at 0.14x (PY: 0.21x). The company's on-going capex is expected to be completed by the end of FY22. The company's term debt obligations stand at Rs.27 crore for FY22, which can be met comfortably considering the stable performance of the company. During FY21, the company had reported GCA of Rs.159 crore.

Analytical approach: Standalone financials are considered

Applicable Criteria
Criteria on assigning Outlook and credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Methodology-Sugar Companies

About the Company
Bannari Amman Sugars Limited (BASL) is the flagship company of Bannari Amman Group (BAG) and is engaged in the manufacture of sugar, industrial/potable alcohol, bio-compost, granite products and generation of power through windmill and co-generation. Dr.S.V.Balasubramaniam is the chairman of the group.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22(U/A)
Total operating income	1,612.86	1,565.68	819.59
PBILDT	235.03	215.08	81.88
PAT	95.64	92.14	26.16
Overall gearing (times)	0.78	0.64	0.63
Interest coverage (times)	5.30	5.47	5.61

A: Audited, U/A: Unaudited

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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC		-	-	-	5.00	CARE A1+
Non-fund-based - LT/ ST-Letter of credit		-	-	-	5.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Cash Credit		-	-	-	745.00	CARE A+; Stable
Fund-based - LT-Term Loan		-	-	Rs 9.00 Cr – 10/01/23 Rs 63.75 Cr – 20/9/25	72.75	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	10.00	CARE A+; Stable / CARE A1+
Fund-based - ST-Working Capital Limits		-	-	-	5.00	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 (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 - ST-EPC/PSC	ST	5.00	CARE A1+	-	1)CARE A1+ (07-Dec-20)	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (19-Dec-18) 2)CARE A1+ (04-Jun-18)
2	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	5.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Dec-20)	1)CARE A+; Stable / CARE A1+ (03-Jan-20)	1)CARE A+; Stable / CARE A1+ (19-Dec-18) 2)CARE A+; Stable / CARE A1+ (04-Jun-18)
3	Fund-based - LT-Cash Credit	LT	745.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Dec-20)	1)CARE A+; Stable (03-Jan-20)	1)CARE A+; Stable (19-Dec-18) 2)CARE A+; Stable (04-Jun-18)
4	Fund-based - LT-Term Loan	LT	72.75	CARE A+; Stable	-	1)CARE A+; Stable (07-Dec-20)	1)CARE A+; Stable (03-Jan-20)	1)CARE A+; Stable (19-Dec-18) 2)CARE A+; Stable (04-Jun-18)
5	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	10.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (07-Dec-20)	1)CARE A+; Stable / CARE A1+ (03-Jan-20)	1)CARE A+; Stable / CARE A1+ (19-Dec-18) 2)CARE A+; Stable / CARE A1+ (04-Jun-18)
6	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A1+	-	1)CARE A1+ (07-Dec-20)	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (19-Dec-18)

** 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 instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-EPC/PSC	Simple
4	Fund-based - ST-Working Capital Limits	Simple
5	Non-fund-based - LT/ ST-Bank Guarantees	Simple
6	Non-fund-based - LT/ ST-Letter of credit	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

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.*

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careratings.com

Analyst Contact
Name: Naveen Kumar Dhondy
Contact no.: +91 8886097382
Email ID: dnaveen.kumar@careratings.com

Relationship Contact
Name: Pradeep Kumar V
Contact no.: +91-98407 54521
Email ID: pradeep.kumar@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**