Ponni Sugars (Erode) Limited

July 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	30.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	1.00	CARE A2 (A Two)	Reaffirmed
Total Facilities	**31.00 (Rs. Thirty-One Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ponni Sugars (Erode) Limited (PSEL) continue to factor a steady operating performance during FY22 which was marked by a marginal improvement in total operating income by ~8% was due to increase in cane crushing, improvement in sugar sales and increase in by-product sales. Profitability margins in sugar segment improved in line with the increase in domestic sugar prices. The liquidity of PSEL is adequate, although a sum of ~Rs.50crore is due from TANGEDCO for supply of power for the period January 2021 till May 2022. The ratings continue to derive strength from the experience of promoters in sugar industry, its partially integrated operations with Cogen unit, comfortable capital structure and various measures undertaken by government to support the sugar industry.

The ratings are partially tempered by PSEL's moderate scale of operations, vulnerability of operations to agro-climatic conditions, cyclicality, seasonality and regulated nature of the industry. However, on account of absence of ethanol manufacturing unit/distillery in PSEL, its ability to counter any steep downturn in sugar industry is restricted to an extent; notably in view of industry fundamentals being supportive towards ethanol production.

Rating Sensitivities:

Positive Factors

- Significant increase in revenues (over Rs.500crore) and sustenance of profitability margin at 14% supported by improvement in recovery rates.
- Forward integration into ethanol production to handle volatility of the sector especially during sugar downturn

Negative Factors

- Any debt funded capex resulting in Overall Gearing> 0.50x
- Decline in scale of operations < Rs. 200 crore and PBILDT margin falling below 10%
- Inordinate delay in realization of power dues impacting cashflows, thereby necessitating PSEL to utilise working capital lines fully

Detailed description of the key rating drivers:

Key Rating Strengths

Experienced promoters & management

The flagship company of the group to which PSEL belongs is Seshasayee Paper & Boards Limited [SPBL, rated CARE A+; Stable/ CARE A1+]. The promoters of the group have over five decades of experience in industries such as paper & paper products, sugar, chemicals, project consultancy etc. The group has also been operational in the sugar industry for more than three decades and has, over the time, acquired significant experience in managing the cyclicality of sugar industry and various other industry challenges.

Partially integrated operations

PSEL is one of the top three efficient sugar manufacturing players in terms of operational efficiencies within state of Tamil Nadu, which is a sugar deficit region. PSEL's operations are partially integrated with a 19 MW co-generation plant. Additionally, the company also derives income from sale of bagasse (to paper manufacturing companies) and molasses (to animal feed companies). However, the company presently does not have a distillery unit to produce ethanol.

Marginal growth in total income and operating margins

PSEL's improvement in performance in FY22 by ~8% was marked by increase in cane crushing, improvement in sugar sales and rise in by-product sales. Profitability margins in sugar segment improved in line with the increase in domestic sugar prices. PSEL voluntarily abstained from standalone power generation during off-season, weighed by unviable returns primarily caused by delay in realization from TANGEDCO. Profitability margins are inherently low in sugar segment due to sluggish domestic prices on account of supply glut while operating margins of the company are driven by higher margins in cogen segment.

[1]Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Comfortable capital structure with no imminent capex plans
The capital structure remained comfortable with overall gearing below unity and stable interest coverage ratios as on March 31 2022. The company is planning 45 KLPD Distillery-cum-Ethanol plant since June 2019. The total cost is estimated at Rs.90crore to be funded by debt of Rs.67.50crore and remaining by internal accrual. However, the project is yet to receive environmental clearance which is pending since the last 3 years. The company had applied for loan to Canara bank and there has been no outlay on the project.

Key Rating Weaknesses
Regulated nature of the industry
The sugar industry is regulated 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), besides setting quotas for export of sugar. All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

Agro-climatic risk; continuation of low recovery trends for southern states
The sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro-climatic risks. Climatic conditions, more specifically, the monsoons influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels. Also, the degree of dispersion of monsoon precipitation across the sugar-growing areas also leads to fluctuating trends in sugar production in different regions. This is more critical for PSEL which operates in Erode which has historically received below par rainfall. This risk is however partly offset by the fact that its command area for sourcing sugarcane also covers the Cauvery river banks, where water availability is generally not a serious concern. CARE notes that while recovery rates for PSEL has been in the range of 9.50% average for the past five years ended March 31, 2022, 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.

Liquidity: Adequate
The liquidity is adequate backed by stable cash accruals. The company sparsely uses its working capital limits which provides significant backup. As on April 30, 2022 PSEL maintained free liquidity of Rs.8.39crore in FD with the banks which shall be utilized towards business operations of PSEL. However, the company has long pending dues from TANGEDCO which may affect the liquidity in case of inordinate delays.

Analytical approach: Standalone

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

About the Company
Incorporated in 1996, Ponni Sugars (Erode) Ltd. (PSEL) is engaged into sugar manufacturing and operates a sugar mill at Erode, Tamil Nadu with capacity of 3500 tcd. PSEL is a part of the SPB (Seshasayee Paper Board) group. Its flagship company - Seshasayee Paper & Board Ltd (SPBL; rated CARE A+; Stable/CARE A1+) is one of the leading integrated pulp and paper manufacturer. The group also has interests in engineering consultancy, battery manufacturing and technology research through various other group entities.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23(UA)
Total operating income	261.05	288.35	NA
PBILDT	34.99	35.56	NA
PAT	25.66	29.25	NA
Overall gearing (times)	-	-	NA
Interest coverage (times)	Very large	Very large	NA

A: Audited; UA-Un-audited; NA: not available

Status of non-cooperation with previous CRA:

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 (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	20.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BBB+; Stable
Non-fund-based - ST-BG/LC		-	-	-	1.00	CARE A2

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (02-Jul-20)	1)CARE BBB; Negative (03-Oct-19)
2	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (19-Jul-21)	1)CARE BBB+; Stable (02-Jul-20)	1)CARE BBB; Negative (03-Oct-19)
3	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (19-Jul-21)	1)CARE BBB+; Stable / CARE A2 (02-Jul-20)	1)CARE BBB; Negative / CARE A3+ (03-Oct-19)
4	Non-fund-based - ST-BG/LC	ST	1.00	CARE A2	-	1)CARE A2 (19-Jul-21)	1)CARE A2 (02-Jul-20)	1)CARE A3+ (03-Oct-19)

*Long term/ short term

Annexure-3: Detailed explanation of covenants of the rated facilities- Not available

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	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details
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@careedge.in for any clarifications.

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