Mawana Sugars Limited (Revised)

July 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	348.75 (Enhanced from 298.75)	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	1.25	CARE BBB; Stable / CARE A3+ (Triple B ; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)
Total Bank Facilities	**350.00 (₹ Three Hundred Fifty Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in ratings assigned to the bank facilities of Mawana Sugars Limited (MSL) factors in the sustained improvement in profitability margins and scale of operations of the company during FY22 (refers to the period April 01 to March 31). The revision in ratings also factors in the improvement in liquidity position of the company with adequate availability of unpledged sugar stock and significant decline in creditor levels. The company's TOL/TNW improved to 1.60x during FY22 from 2.57x in FY21. The ratings continue to derive strength from the diversified revenue streams and integrated business model with co-generation and distillery operations, along with experienced promoter and long-track record of operations of the company. The ratings, however, continue to remain constrained by the cyclical nature of industry, exposure towards subsidiaries/associates, working capital intensive nature of operations and regulated nature of business.

Rating sensitivities

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

- Improvement in PBILDT margins above 8% on a sustained basis
- Improvement in total debt/PBILDT to below 3x

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

- Decline in profitability as marked by PBILDT margin below 6% 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

Sustained improvement in profitability margins

The PBILDT margins of the company has been witnessing an upward trend since FY20. The PBILDT margins improved from 5.39% for FY20 to 6.69% in FY21 and further to 7.28% in FY22. The improvement has been largely on account of sustained growth in realisation of sugar and ethanol. The realisation of sugar and ethanol increased to Rs. 3416 per quintal and Rs. 56.90 per litre respectively in FY22 (PY: Rs. 3235 per quintal and Rs. 49.69 per litre respectively). Additionally, the company has sold its loss-making chemical division in FY21 which has also led to cost savings.

The total operating income of the company has grown marginally and stood at Rs. 1478.16 crores for FY22 (PY: Rs. 1469.57 crores). While the sale of sugar and co-gen remained largely stable, ethanol segment has experienced a healthy growth of 26% during FY22 driving the sales.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s 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 FY22, sugar, power and distillery contributed at 83.71%, 1.56% and 14.74% respectively to gross sales.

Moderate financial risk profile characterised by significant reduction in creditors

As on March 31, 2022 the total debt of the company increased to Rs. 416.74 crore from Rs. 277.32 crore as on March 31, 2021 mainly due to higher utilisation of working capital borrowings utilised towards payment of cane dues. As on March 31, 2021 the company had cane arrears amounting to Rs. 653.50 crore reduced significantly to Rs. 184.82 crores as on March 31, 2022. The company cleared the dues through sale proceeds of chemical division, internal accruals and enhanced working capital borrowings. The overall gearing thus moderated slightly to 1.01x as on March 31, 2022 as against Rs. 0.71x as on March 31, 2021. However, the liquidity of the company improved with adequate availability of unpledged sugar stock and significant decline in creditors levels. The company's TOL/TNW improved to 1.60x during FY22 from 2.57x in FY21.

Experienced promoters and long track record of operations

MSL has been in business for more than 70 years promoted by Shriram group. Mr. Krishna Shriram, has recently joined MSL in May 2021, post the demise of Mr. Siddharth Shriram, as Non-executive director. The day-to-day operations of the company is, however, managed by Mr. Dharam Pal Sharma, Whole Time Director having experience of more than 4 decades in the sugar industry.

<u>Key rating weaknesses</u>

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 with increased contribution from ethanol, the fortune of sugar segment may affect the overall profitability and fund requirement. The maximum working capital utilization for past 12 months ended March 2022 stood at more than 90%. The bank borrowings were majorly utilised to clear cane dues which led to improvement in creditor period to 110 days in FY22 from 164 days in FY21.

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. 97.94 crores as on March 31, 2022 (PY: Rs. 89.53 crores). The adjusted overall gearing stands at 1.32x as on March 31, 2022 (PY: 0.92). 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 a current ratio of above unity consistent since last 3 fiscals ended FY22 and a moderate free cash and bank balance of around Rs. 33 crore as on March 31, 2022. The company has projected gross cash accruals of around Rs. 62 crore as against the debt repayment obligations of Rs. 34.69 crore for FY23. The capex requirements of the company are modular at around Rs. 25 crore which will majorly be funded through internal accruals. However, the company has sufficient headroom to borrow in case of any exigency. The maximum utilization of working capital limits stood at more than 90% for last twelve months ended March 2022.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Sugar

About the company

Incorporated in 1961, MSL is a part of the Shriram Group. The 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 more than 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 March 31, 2022, the company had an installed capacity of 19000 TCD for sugar, 53.50 MW for power and 120 KLPD for manufacturing of ethanol.

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	1397.40	1,469.57	1,478.16
PBILDT	75.32	98.35	107.56
PAT	-79.68	93.37	33.08
Overall gearing (times)	1.53	0.71	1.01
Interest coverage (times)	8.23	3.67	4.19

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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/ ST-Working Capital Limits		-	-	-	1.25	CARE BBB; Stable / CARE A3+
Fund-based - LT-Term Loan		-	-	Feb 2024	11.25	CARE BBB; Stable

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/ ST-Working Capital Limits		-	-	-	1.25	CARE BBB; Stable / CARE A3+
Fund-based - LT-Cash Credit		-	-	-	337.50	CARE BBB; Stable

Annexure-2: Rating history for the 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/ ST-Working Capital Limits	LT/ST*	1.25	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (01-Sep-21)	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)
2	Fund-based - LT-Term Loan	LT	11.25	CARE BBB; Stable	-	1)CARE BBB-; Stable (01-Sep-21)	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	337.50	CARE BBB; Stable	-	1)CARE BBB-; Stable (01-Sep-21)	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 the covenants of the rated instruments/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 - LT/ ST-Working Capital Limits	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 instruments: CARE Ratings 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Puneet Kansal
Phone: +91-11-4533 3225
E-mail: puneet.kansal@careedge.in

Relationship contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agrawal@careedge.in

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