Mawana Sugars Limited

February 18, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long Term Bank Facilities	296.30	CARE BB+ (CWD) (Double B Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Long Term / Short Term Bank Facilities	3.70	CARE BB+ / CARE A4+ (CWD) (Double B Plus / A Four Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total Bank Facilities	**300.00 (Rs. Three Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of MSL are being placed on credit watch with developing implications on account of the announcement made by the company regarding the sale of one of its operating unit Siel Chemical Complex (SCC) as a going concern by way of slum sale. The transaction is expected to be completed before March 31, 2021. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

The ratings assigned to the bank facilities of Mawana Sugars Limited (MSL) are constrained by the cyclical nature of the sugar industry, working capital intensive nature of operations and regulated nature of the business. The ratings however draw comfort from the integrated business model with cogeneration & distillery operations which continues to provide cushion against the cyclicality of the sugar business of MSL. Further, the rating also draws comfort from its experienced promoters and management team and long track record of operations.

MSL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. In the anticipation of the said approval following the regulatory package by RBI some of the scheduled repayments were deferred by the company. The moratorium was approved by the lenders of MSL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Rating sensitivities

Positive Factors:

- Ability of the company to increase its scale of operations by more than 20% from its current levels on a sustained basis.
- Ability to enhance its PBILDT margins by more than 7% on sustained basis.
- Ability to improve the capital structure marked by overall gearing of less than 1.50x on a sustained basis.

Negative Factors:

- Decline in profitability margins as marked by PBILDT margin below FY20 level on a sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Working capital intensive operations: Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements 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 average working capital utilization at maximum level for past 12 months ended Dec 2020 stood at around ~90%.

Liquidity: The liquidity profile of the company is stretched. The current ratio stood at 1.05x as on March 31, 2020 on account of high cane arrears and high repayments which are due in FY21. Operating cycle of the company stood at 52 days in FY20 as against 7 days in FY19 due to decrease in creditor period to 172 days in FY20 from 207 days in FY19. The company has high inventory days as manufacturing of sugar takes place during November to April, while sales takes place uniformly during the complete year and also due to imposition of sales quota on sugar companies which led to high

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inventory days. Cash and bank balance as on March 31, 2020 stood at Rs. ~47 crores (including fixed deposits of Rs. 14.75 crores with original maturity of 3 months or less) and the same stood at Rs 30.65 crore as on June 30, 2020. As on March 31, 2020, company has outstanding subsidy receivables of around ~Rs. 88 crores is outstanding as on June 30, 2020 on account of sugar exports, buffer stock maintained and interest subvention receivables on soft loans, etc. The average working capital utilization at maximum level for past 12 months ended Dec 2020 stood at around ~90%. Total repayments due for FY21 are ~Rs126 crore out of which around Rs. 93 crores has been repaid in 9MFY21. Total sugar stock and cane arrears as on December 31, 2020 stood at Rs. 411.35 crores and Rs. 357.89 crores respectively. Company has already received around ~Rs. 20.55 crores after signing the business transfer agreement (BTA) which has been utilized to pay soft loans in February 2021.

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.

Moderate financial risk profile: Total income from operations increased by ~20% to Rs 1404.43 crores in FY20 from Rs 1169.73 crores in FY19 attributable to the higher sales in sugar and distillery segment. However, PBILDT margin has decreased to 5.86% in FY20 from 10.30% in FY19 on account of lower profitability from the power & chemical segments. In the sugar segment, the revenue has increased on account of increased quantity sales and improved realization during the year. Sugar realisation improved to Rs. 3262/QTL in FY20 as compared to Rs.3101/QTL on the back of Sugar MSP of Rs. 31 per KG during the period. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory, higher exports for the SS 2019-20 have also aided the improvement in prices. In Power segment, profitability and sales have declined in FY20 is on account of decreased quantity sales and reduction in tariff rate by Uttar Pradesh Electricity Regulatory Commission retrospectively from 1 April 2019. In chemical segment, ECU realization has declined from Rs. 37,674 per MT in FY19 to Rs. 31,259 per MT in FY20 on account of increased supply during the year, which has resulted in lower profitability in the segment. Company successfully installed incinerator boiler and commercial operation has been started w.e.f Feb'20. Incinerator Boiler will enable the unit to run for increased number of days and result increased capacity utilization in future years. This shall contribute positively to MSL's financial profile going forward.
Total debt has increased to Rs. 486.88 crores as on 31st Mar 2020 from Rs 237.80 crores as on 31st Mar 2019 with increase of term loan borrowings and working capital borrowings of the company Term loan increased in FY20 majorly on account of soft loan by the company. On account of increase in total debt, the overall gearing of the company has also increased to is 1.53x as on March 31, 2020 as against 0.60x as on March 31, 2019.
During 9MFY21, MSL reported growth of ~27% in total operating income vis-à-vis 9MFY20 to reach Rs. 1224 crores on account of increased sales from sugar and distillery segment. However, PBILDT has declined from Rs. 32.16 crores in 9MFY20 to Rs. 5.06 crores in 9MFY21 primarily due to lower realization from chemicals segment & losses in sugar segment. Total debt of the company stood at Rs. 401.63 crores as on Dec 31, 2020 including long term loans of Rs. 230.41 crores and working capital borrowings of Rs. 171.22 crores.

Key Rating Strengths

Experienced promoters and long track record: Mr. Sidharth Shriram, promoter of MSL has more than 3 decades of experience. Siddharth Shriram Group has diverse interests including sugar, edible oils, industrial chemicals to fans, appliances and automobiles. MSL has been in business for more than 60 years. Mr. Dharam Pal Sharma is the Whole Time Director and has over 37 years of experience in sugar industry.

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 co-generation capacity of 47 megawatt (MW) and distillery capacity of 120 kilo litre per day (KLPD). During FY20, the distillery and power division together contributed around 17.53% to gross revenue, chemicals contributed 12.82% and balance was from the sugar division.

Industry Outlook

For SS 2020-21, India's sugar output is expected to increase by 17.7% y-o-y to 32 million tonnes as per the preliminary estimates released by ISMA. This is likely to aggravate the already surplus sugar supply situation in India. The estimate does not include diversion of cane juice and B-molasses towards ethanol which is expected to result in 1.5 million tonnes of less sugar in sugar year 2020-21. The average domestic sugar prices remained almost stable and were in the range of Rs.33 per kg – Rs.34 per kg during the period October 2019-March 2020 backed by lower sugar output and higher exports for the SS 2019-20. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also aided the stability in prices.

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In July 2020 sugar prices improved by 4.7% m-o-m to Rs.33.9 per kg. The prices had also increased 1.6% sequentially in June 2020 as per Wholesale Price Index (WPI). Some recovery in demand from bulk consumers such as restaurants which were allowed to operate (though with various restrictions) is believed to have resulted in the improvement in prices. Sugar prices in June 2020 (at Rs.32.3 per kg) however were 4% lower compared to the average sugar prices of Rs.33.7 per kg in the first 6 months of SS 2019-20 (prior to lockdown). Post lockdown, sugar prices had declined by 0.3% in April 2020 and by another 0.9% in May 2020 on sequential basis as per WPI. Subdued demand from bulk consumers like restaurants, eateries, food services etc. due to imposition of lockdown on account of Covid-19 is believed to have impacted sugar prices during these two months. The Cabinet Committee on Economic Affairs (CCEA) announced FRP for sugarcane at Rs.285 per quintal for the sugar season (SS) 2020-21 for a basic recovery rate of 10%. This is 3.6% higher than the FRP of Rs.275 per quintal during 2019-20 when it was kept unchanged. The higher cost of sugar production is likely to affect the sugar mills given the current scenario of sugar industry where surplus sugar supply is already restricting any major growth in sugar prices. Further the SAP prices have remain unchanged for the current Sugar season in UP.

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

About the Company
Formerly known as Siel Limited, Mawana Sugars Limited (MSL), was founded by Shriram Enterprises in 1949 and later emerged as an independent entity in 1989 with the restructuring of the erstwhile DCM Group. MSL is now part of the Siddharth Shriram Group which is a diversified group with business interests in sugar, chemicals, edible oils, sewing machines, fans, home appliances, lighting products, engines and automotive components. MSL is engaged in the manufacturing and marketing of Sugar, Ethanol and Co- generation of Power at its units at Mawana Sugar Works, Meerut, (U.P.) and Nanglamal Sugar Complex, Meerut (U.P.). The company also has capacity to manufacture Chlor-Alkalies chemicals such as Caustic Soda, Chlorine, Hydrogen, etc. in Siel Chemical Complex (SCC), Rajpura, Punjab. As on June 30, 2019 MSL's sugarcane crushing capacity stood at 19,000 TCD, co-generated power capacity at 47 MW and ethanol production capacity per day at 120 KLPD.
MSL has announced about the approval from Board of Directors of the Company about sale of one of its operating unit Siel Chemical Complex (SCC) as a going concern by way of slum sale to Bodal Chemicals Limited, Ahmedabad. This unit contributes ~20% to the total operating income of the Company. Consideration to be received from the sales is around Rs.137 Crores subject to adjustments of net current assets and current liabilities (Net working capital amount) of the undertaking. As per the management, the chemical complex is currently using old technology and requires a complete overhaul which requires huge capex, the unit is currently not profitable due to decline in chlorine and caustic soda prices and management decided to sell the unit and use the proceeds to lower its debt obligations & hence improve its financial profile. CARE will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1169.73	1404.43
PBILDT	120.46	82.35
PAT	42.44	-79.68
Overall gearing (times)	0.60	1.53
Interest coverage (times)	5.16	3.33

A: Audited

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	3.70	CARE BB+ / CARE A4+ (CWD)
Fund-based - LT-Term Loan	-	-	Dec 2024	131.30	CARE BB+ (CWD)
Fund-based - LT-Cash Credit	-	-	-	165.00	CARE BB+ (CWD)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	3.70	CARE BB+ / CARE A4+ (CWD)	1)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	131.30	CARE BB+ (CWD)	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (09-Oct-19)	-	-
3.	Fund-based - LT-Cash Credit	LT	165.00	CARE BB+ (CWD)	1)CARE BB+; Stable (05-Oct-20)	1)CARE BB+; Stable (09-Oct-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Cash Credit	Interest @ 10.25% with monthly rests or other rests and rates as may be prescribed by the U.P. Cooperative bank Ltd., from time to time shall be charged. Interest accrued shall be recovered to debit of respective cash credit loan A/Cs.
2. Term loan	Interest subvention upto 7% simple interest shall be provided to the sugar mills through bank for the maximum period of 1 year by the Government of India
B. Non-financial covenants	
1. Cash Credit	All the facilities to be secured by the hypothecation of book debts of the mill as collateral security
2. Term loan	The loan will be secured by the corporate guarantee of Mawana group company. Further all the credit facilities of Mawana group will also be secured with the first pari passu charge on the fixed assets of the company. Further the existing charge will also be extended to the extent of said loan.

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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. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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