Ponni Sugars (Erode) Limited

July 19, 2021

Rating

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	30.00 (Reduced from 40.00)	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 FY21 which was marked by a modest decline in total income mainly on account of lower sugar sales and bagasse due to downturn in paper industry, both of which were attributable to the Corona virus pandemic outbreak. The profitability margins of PSEL witnessed marginal dip on account of lower recovery of cane. The liquidity of PSEL has also been improving on account of the collection of overdues albeit intermittently from the troubled state discom i.e. TANGEDCO which has been receiving financial support from the Government. These collections have hereby enabled PSEL to become debt free and enabled to manage operations through cash balance and internal accruals. 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.

Key Rating Sensitivities

Positive triggers

- Significant increase in revenues (over Rs. 500 crore) 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 triggers

- 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 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.

Steady operating performance; notwithstanding adverse macroeconomic factors

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

PSEL's Total Operating Income declined y-o-y by 17% from FY20 to FY21. Key operating parameters include marginal increase in cane crushed volume, decline in sugar recovery to 9.36% and modest rise in sugar production. Bagasse sale reduced by more than half due downturn in the paper industry on account of the pandemic. PSEL voluntarily abstained from standalone power generation during off-season, weighed by unviable returns primarily caused by delay in realization from state discom TANGEDCO. In addition to above factors, stagnant domestic prices of sugar also impacted profitability marginally. 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.

Comfortable capital structure; no imminent capex in next 1-2 years

During FY21, PSEL repaid final instalment of term loan under "Scheme of extending soft loans to sugar mills" to facilitate payment of cane dues to farmers. Further there is no outstanding short term debt in PSEL's balance sheet as working capital requirements are managed through internal accruals and cash balance made available from intermittent partial refund of overdues by TANGEDCO. Capital structure is expected to remain comfortable going forward with no significant capex planned in near future. PSEL management articulated that they are in the process of obtaining required environmental clearances and considering the progress in getting the clearances for the gross-root distillery cum ethanol project, they would approach bankers for securing bank assistance. For setting up of a distillery cum ethanol project having 45 KLPD capacity expected capex is Rs 75 crores with expected term loan of Rs 57.80 crore.

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, 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.

Industry Outlook

With normal monsoon forecast by IMD for the third year in a row and stable area under sugarcane, sugar production outlook for the country is expected to leave a surplus in SS 2021-22. Export and ethanol, duly backed by Government concessions, would enable to rationalize domestic inventory. Sugar fundamentals are not indicative of any domestic price uptick unless there is significant MSP revision.

Liquidity indicator: Adequate- The collection of considerable portion of long pending receivables from TANGEDCO in FY21 and Q1FY22 has significantly eased the liquidity position of PSEL enabling it to repay all existing debt. Coupled with stable net accruals, the dependence on working capital borrowings have become very negligible. Collection of past overdues in Q1FY22 amounting to Rs. 17.69 crore has further brought down the o/s receivables from Rs. 40.94 crore as on March 31, 2021 to Rs. 26.82 crore as on May 31, 2021 and also improved liquidity. As on May 31, 2021 PSEL maintained free fixed deposit of Rs.23.84 crore with the banks which shall be utilised towards business operations of PSEL. The liquidity is expected to remain adequate and dependence on working capital borrowings also expected to be low unless PSEL faces extreme delay in debtors realization, which has been the case earlier.

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 (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	314.18	261.05
PBILDT	45.14	34.99
PAT	30.94	25.66
Overall gearing (times)	0.08	-
Interest coverage (times)	16.84	Very large

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

Rating History: 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-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 (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-Term Loan	LT	-	-	-	1)Withdrawn (02-Jul-20)	1)CARE BBB; Negative (03-Oct-19)	1)CARE BBB; Stable (06-Nov-18)
2.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (02-Jul-20)	1)CARE BBB; Negative (03-Oct-19)	1)CARE BBB; Stable (06-Nov-18)
3.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable / CARE A2	1)CARE BBB;	1)CARE BBB;

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		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
						(02-Jul-20)	Negative / CARE A3+ (03-Oct-19)	Stable / CARE A3+ (06-Nov-18)
4.	Non-fund-based - ST-BG/LC	ST	1.00	CARE A2	-	1)CARE A2 (02-Jul-20)	1)CARE A3+ (03-Oct-19)	1)CARE A3+ (06-Nov-18)

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

Name of the covenant	Detailed explanation
Financial covenant	TOL/TNW<2.0x Interest Coverage > 3.0x

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