

The Ugar Sugar Works Limited

July 19,2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	600.00	CARE BBB-; Positive	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of The Ugar Sugar Works Limited (Ugar) factors in the company's diversification in to ethanol production with the commissioning of its 800 kilolitre per day (KLPD) juice-based ethanol plant during December 2022, resulting in an overall improvement in the scale of operations and profitability margins, which is expected to continue going forward. CARE Ratings Limited (CARE Ratings) also takes note of the commissioning of its 250 KLPD grain-based ethanol plant during April 2023, which can operate during the sugar off-season. The diversification into ethanol production has translated into diversified revenue streams, thereby leading to mitigation of the risk related to the cyclical and seasonal sugar industry to a certain extent. Ugar's ability to sustainably improve its capacity utilisation for ethanol production along with the ability to maintain low inventory levels under the sugar segment will be a key monitorable for its credit profile. The rating also considers the cordial relations with local framers, leading to adequate procurement of cane, and the presence in a high recovery zone, along with the positive push from the government to achieve the ethanol blending programme (EBP) timelines. The rating also derives strength from the experienced promoters and their established presence in the sugar and related industries.

However, these ratings strengths are partially offset by the moderate capital structure and debt coverage albeit significant improvement in FY23, the company's presence in a working capital-intensive nature of business, and its operations in a cyclical and regulated nature of the industry, which is inherent to agro-climactic risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable scale of operations above ₹1,200 crore with a profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 11% and an interest coverage above 4.50x with total outside liabilities (TOL)/tangible net worth (TNW) below 3x.

Negative factors

- Decline in the PBILDT below 8%.
- Any debt-funded capex, resulting into an overall gearing of >2.50x and total debt (TD)/PBILDT of >5.50x.

Analytical approach: Standalone

Outlook: Positive

The 'Positive' outlook reflects the expectation sustained improvement in net profits and capital structure following the commencement of the ethanol plant. Grain-based ethanol plant has also commenced operations in April 2023, which will further support the credit metrics. The outlook will be revised to 'Stable' in case the company is unable to operate the ethanol plant at optimum levels or increase the sugar inventory, thus leading to a deterioration in the capital structure.

Detailed description of the key rating drivers

Key strengths

Extensive experience of the promoters in the sugar industry

Ugar was set up in the year 1939 in the Ugar Khurd district of Karnataka with an installed capacity of 500 TCD (Tons of Cane per Day) and has around 85 years of experience in the similar line of sugar business. Currently, the company operates two sugar units – one in Ugar in the Khurd district of Karnataka and one in Jewargi in the Kalaburgi district of Karnataka. The company has a total installed capacity of 22,500 TCD with a 59.50 megawatt (MW) co-generation unit and a 845-KLPD (45 KLPD molasses based and 800 KLPD direct route, ie, cane juice or syrup route-based) ethanol plant during the sugar season, which can be converted into 400 KLPD grain-based ethanol plant during the offseason, of which 250 KLPD was commissioned in April 2023. The company is part of the SB group (Shirgaokar Group) and is actively managed by Neeraj Shirgaokar and

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

Chandan Shirgaokar in the capacity of Managing Directors of the company, supported with an experienced management team. Chandan Shirgaokar is the current President of All India Distillery Association (AIDA).

Integrated business model with diversified revenue streams, leading to mitigation of the risk related to the cyclical and seasonal sugar industry

Ugar's Khurd unit currently operates a 20,000 TCD sugar plant and a co-generation unit with an installed capacity of 44 MW and the company had an existing molasses-based distillery with an installed capacity of 45 KLPD, which was primarily used for spirit and Indian-made foreign liquor (IMFL). In December 2022, the company commissioned its 800 KLPD sugarcane juice-based distillery operations for the production of ethanol. The integrated nature of operations mitigates the risk associated with the volatility in sugar prices and its cyclical nature to some extent. Furthermore, the plant also has a grain-based capacity of 400 KLPD grain-based ethanol during the off season, of which 250 KLPD was commissioned in April 2023, which will help the company to earn additional revenue in the sugar off season. The company has another unit at Jewargi with a 2,500 TCD capacity. The unit is partially integrated with a co-generation installed capacity of 15.50 MW. However, the company does not have any other distillery capacity under the Jewargi unit.

Improvement in the scale of operations and profitability margins, mainly driven by diversification into ethanol

In December 2022, the company commissioned its 800 KLPD direct or juice-based distillery unit for ethanol production, which contributed around 22% of the total revenues in FY23. With the company starting its cane juice-based ethanol production and clearance of sugar stock, sales have improved by more than 57% during FY23 and stood at ₹1,800 crore when compared to ₹1,144 crore in FY22. The same also translated into improvement in the PBILDT margin to 11.80% in FY23 when compared to 8.76% in FY22.

The company is expected to operate the sugar-cane juice plant at the optimum level during the sugar season while using the grain-based ethanol plant during the off-season, thereby ensuring uniform cash flow generation throughout the year.

Better relations with local framers, leading to adequate procurement of cane, and presence in a high recovery zone

The sugar plant of Ugar is located in the sugarcane cultivation area in Ugar-Khurd and Jewargi in the state of Karnataka. The command area of Ugar comprises over 80 villages with total land under sugarcane cultivation to the tune of about 76,000 acre. The nearby sugar factories to the Ugar-Khurd unit includes Athani Sugars Limited (CARE BB+; Stable), Shiraguppi Sugars Works Limited, Raibaug SSK and close to the Jewargi unit is Renuka Sugars Limited. The command area is well irrigated over the years with consistent supply of water through rivers like Krishna, which is 1 km away from the plant and from which water is distributed to agriculture lands and industries in the region in which the Ugarkhurd and Jewargi units are located respectively. The favourable climatic conditions and adequate irrigation facilities have rendered sugarcane with a high recovery rate ranging between 11.5-12.0%. Furthermore, the promoters have a wide acceptance among local farmers and enjoy cordial relationships, facilitating the company's cane procurement initiatives on such a large scale (average crushing of around 20 lakh MT during the past three crushing seasons).

Key weaknesses

Moderate capital structure and debt coverage, albeit improved in FY23

The company has recently completed a debt-funded capex of an ethanol plant and has availed additional guaranteed emergency credit line (GECL) loans in order to fund the working capital requirements and to prepay the high-cost debt of the company, resulting in a higher term loan outstanding as on March 31, 2023. The ethanol plant was commissioned and was operational during the sugar season, which has led to faster cash realisations for the ethanol sales, resulting in lower dependence on the working capital borrowings for the company. In the past, the company's working capital borrowing levels remained high due to higher sugar stock maintained by the company, which was liquated during the year, resulting in an overall gearing of 1.82x as on March 31, 2023, when compared to 5.80x as on March 31, 2022. The TOL/TNW improved and stood at around 3.12x as on March 31, 2023, as compared to 8.85x as on March 31, 2022, on account of accretion of profits.

Working capital-intensive nature of the business

The sugar industry being seasonal in nature has high working capital requirements during the peak season, which is from October to April, as this is the season of procurement and crushing. The companies have high working capital requirements during the peak season and to procure their primary raw material, ie, sugarcane and manufacture sugar during this period. The operating cycle of the company generally remains elongated, however, the sale of sugar stock during the year coupled with the diversion of sugarcane to ethanol has led to lower inventory days, which stood at around 130 days in FY23 as compared to 245 days in FY22 and 252 days in FY21, resulting in an improvement in the operating cycle of the company, which stood at 113 days for FY23 as compared to 206 days in FY22. In relation to the receivables for ethanol sales, the company receives the payment from Oil Manufacturing Company's (OMC's) within 20 days from the date of sale to customers and receives the payments within one month from discoms for the sale of power. The company clears its creditors, ie, farmers generally within 30-45 days.

Cyclical and regulated nature of the industry and inherent to agro-climactic risk

The industry is cyclical by nature and is vulnerable to government policies for various factors like its importance in the Wholesale Price Index (WPI), as sugar is classified as an essential commodity. The governments (both, Union and State) resort

to various regulations such as fixing the raw material (sugarcane) prices in the form of fair and remunerative prices (FRP) and state advised prices (SAP) and the sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro-climatic risks including pests and diseases. Climatic conditions, more specifically, the monsoons influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels. All these factors impact the cultivation patterns of sugarcane in the country, and thus, affect the profitability of sugar companies. India also continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the government. Thus, the company's performance can be impacted by the disproportionate increase in cane prices in any particular year. Furthermore, the profitability remains vulnerable to the government's policies on exports, MSP, and remunerative ethanol prices. In addition, the cyclical nature in sugar production results in volatility in sugar prices. However, the sharp contraction in the sugar prices is curtailed after the introduction of MSP by the Central Government in June 2018. Furthermore, healthy exports and higher diversion of sucrose towards ethanol in the recent years have resulted in favourable demand-supply dynamics in the country, thus resulting in improved realisations currently. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice by the industry is expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and cash flows from the sugar business.

Liquidity: Adequate

The liquidity profile of the company is assessed to be adequate due to the improvement in the working capital cycle, which is likely to sustain following the commissioning of the ethanol division. The company's presence and operations into both, grain-based and direct sugar juice-based ethanol production capacity will ensure regular cash flows throughout the year. The company has un-encumbered cash and cash equivalents of ₹5.71 crore as on March 31, 2023. The working capital utilisation was moderate with average (of month-end utilisation) working capital (WC) utilisation of 65% during the 12 months ended April 30, 2023.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Sugar](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

Ugar was set up in the year 1939 in the Ugar Khurd district of Karnataka with an installed capacity of 500 TCD. Currently, the company operates two sugar units – one in Ugar, Khurd district of Karnataka and one in Jewargi, Kalaburgi district of Karnataka. The company has a total installed capacity of 22,500 TCD with a 59.50-MW co-generation unit and a 45-KLPD molasses-based distillery. During FY23, the company has commissioned its 800 KLPD direct route (cane juice or syrup route)-based ethanol plant, which can be converted into a 400-KLPD grain-based ethanol plant during the offseason, of which 250 KLPD was commissioned in April 2023. The company is part of the SB group (Shirgaokar Group) and is actively managed by Neeraj Shirgaokar and Chandan Shirgaokar in the capacity of Managing Directors of the company, supported by an experienced management team.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	1,144.30	1,800.59
PBILDT	100.22	214.80
PAT	43.32	103.05
Overall gearing (times)	5.80	1.58
Interest coverage (times)	2.30	4.44

A: Audited. Note: The above results are latest financial results available.

Status of non-cooperation with previous CRA: Nil

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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	437.50	CARE BBB-; Positive
Fund-based - LT-Term Loan	-	-	-	March 2028	162.50	CARE BBB-; Positive

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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	162.50	CARE BBB-; Positive	-	-	-	-
2	Fund-based - LT-Cash Credit	LT	437.50	CARE BBB-; Positive	-	-	-	-

LT: Long term

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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

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About us:

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