Mawana Sugars Limited

July 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	348.75	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	1.25	CARE BBB; Stable / CARE A3+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Mawana Sugars Limited (MSL) continues to derive strength from its experienced promoters with long track record of operations, diversified revenue streams and integrated business model with cogeneration and distillery operations. The ratings take cognisance of moderation in profitability and debt coverage indicators during FY23 (refers to the period from April 1 to March 31) owing to lower recovery and export quota in the sugar segment though the scale of operations remained stable. On the other hand, the ratings 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: Factors likely to lead to rating actions

Positive factors

- Sustenance of total operating income while improving PBILDT margins above 8% on a sustained basis
- Improvement in total debt/PBILDT to below 3x

Negative factors

- Decline in PBILDT margin to below 5% 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

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE'S expectation of a sustained operational and financial risk profile in the medium term.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters and long track record of operations

MSL has been in business for more than 60 years and was promoted by late Mr. Sidharth Shriram. Siddharth Shriram Group has interests in diverse fields such as sugar, edible oils and industrial chemicals to fans, appliances and automobiles. The other group concerns include Siel Limited, a manufacturer of Vegetable Oil and Chlor Caustic Chemicals. Siel Limited has a joint venture with Honda Motor Japan for manufacture of Portable Generators, General Purpose Engines and automobiles and holds the position of Chairman in these two companies viz. Honda Siel Power Products Limited and Honda Siel Cars India Limited. Currently, the overall operations of the company are looked after by Mr. Dharam Pal Sharma, Whole Time Director of the company having experience of more than 4 decades in the 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 tonnes 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 FY23, the sugar division contributed 79.95% (PY: 83.71%) of total gross sales followed by distillery division at 16.27% (PY: 14.74%) and rest 1.60% (PY: 1.56%) from power division.

Moderate operational and financial risk profile

The total operating income (TOI) of the company remained stable and stood at Rs. 1481.71 crores for FY23 (PY: Rs. 1463.17 crores). While the sale of sugar has seen a slight dip owing to decline in export quota, the total income has remained stable owing

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

to growth in the sales of ethanol and its realisation. PBILDT margin of MSL witnessed moderation to 5.43% in FY23 as against 6.33% recorded in FY22 led by decline in export sales which has better profitability as well as inventory gains booked during FY22. However, going forward, the company is expected to sustain profitability in the range of 5.5-6%.
As on March 31, 2023 the total debt of the company has decreased to Rs. 383.02 crore from Rs. 416.74 crore as on March 31, 2022 on account of scheduled repayment obligations. The overall gearing thus improved to 0.92x as on March 31, 2023 as against 1.01x as on March 31, 2022. The debt coverage indicators however, witnessed moderation on account of moderation in profitability. Total debt/GCA increased to 4.89x for FY23 from 1.80x in FY22. Also, the interest coverage ratio moderated to 2.90x during FY23 from 3.61x in FY22.

Key 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 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. The inventory holding period of the company thus stood stretched at 165 days for FY23 though improved from 185 days in FY22. The working capital cycle of the company further elongated to 124 days in FY23 as against 84 days in FY22 as the company has paid-off its past cane dues in last 2 fiscals. The trade payables of the company stood at Rs. 201.24 crore as on March 31, 2023 (PY: Rs. 184.82 crore) as against past dues of more than Rs. 500 crores. Pursuant to the guidelines of GoI, the company has reduced its cane dues to up to 14 days and shall be maintaining the same going forward. Consequently, the average creditor period of the company has reduced to 50 days in FY23 from 110 days in FY22. The high working requirements were largely met through bank borrowings which remained almost fully utilised for last twelve months ended March 2023.

Exposure towards subsidiaries/associates

MSL has 3 subsidiaries; Siel Industrial Estate Limited, Siel Financial Services Limited, and Siel Infrastructure & Estate Developers Private Limited and one associate company; Mawana Foods Private Limited. The subsidiaries do not have any operations and were only formed to hold investments and land. However, as discussed with management, the company does not have any plans to enter into real estate and is looking to sell these entities. The company has total group exposure amounting to Rs. 101.77 crore as on March 31, 2023 pertaining to investment in subsidiaries and affiliate companies. The adjusted overall gearing stands at 1.21x as on March 31, 2023 for the same, any significant change in the group exposure will be a key monitorable rating sensitivity.

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 FY23 and a moderate free cash and bank balance of around Rs. 27 crores as on March 31, 2023. The company has projected gross cash accruals of Rs. ~68 crore as against the debt repayment obligations of Rs. 34.37 crore for FY24. The capex requirements of the company are modular at around Rs. 18 which will majorly be funded through internal accruals. The company has sugar stock of around Rs. 600 crores as on May 31, 2023 out of which around Rs. 300 crore is pledged for working capital and rest is free.

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 and industry

Industry classification

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

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, 2023, 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, 2022 (A)	March 31, 2023 (A)
Total operating income	1,463.17	1,481.71
PBILDT	92.58	80.49
PAT	33.08	17.24
Overall gearing (times)	1.01	0.92
Interest coverage (times)	3.61	2.90

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	337.50	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	Dec 2024	11.25	CARE BBB; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	1.25	CARE BBB; Stable / CARE A3+

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/ ST-Working Capital Limits	LT/ST*	1.25	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (07-Jul-22)	1)CARE BBB-; Stable / CARE A3 (01-Sep-21)	1)CARE BB+ / CARE A4+ (CW with Developing Implications) (18-Feb-21) 2)CARE BB+; Stable / CARE A4+ (05-Oct-20)
2	Fund-based - LT-Term Loan	LT	11.25	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Jul-22)	1)CARE BBB-; Stable (01-Sep-21)	1)CARE BB+ (CW with Developing Implications) (18-Feb-21) 2)CARE BB+; Stable (05-Oct-20)
3	Fund-based - LT-Cash Credit	LT	337.50	CARE BBB; Stable	-	1)CARE BBB; Stable (07-Jul-22)	1)CARE BBB-; Stable (01-Sep-21)	1)CARE BB+ (CW with Developing Implications) (18-Feb-21) 2)CARE BB+; Stable (05-Oct-20)

*Long term/Short term.

Annexure-3: Detailed explanation of 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
3	Fund-based - LT/ ST-Working Capital Limits	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

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-120-445 2000 E-mail: dinesh.sharma@careedge.in	Sajan Goyal Director **CARE Ratings Limited** Phone: +91-120-445 2017 E-mail: sajan.goyal@careedge.in Puneet Kansal Associate Director **CARE Ratings Limited** Phone: +91-120-445 2018 E-mail: puneet.kansal@careedge.in Sunidhi Vyas Lead Analyst **CARE Ratings Limited** E-mail: sunidhi.vyas@careedge.in

About us:
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