Ponni Sugars (Erode) Limited

July 04,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	30.00	CARE BBB+; Stable	Reaffirmed
Short Term Bank Facilities	1.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of ratings assigned to the bank facilities of Ponni Sugars (Erode) Limited (PSEL) considers improvement in operational performance during FY2023 aided by increase in sales volume. The ratings continue to derive strength from the experience of promoters in sugar industry, its partially integrated operations with Cogen unit, comfortable capital structure with no long-term debt and low reliance on working capital limits 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.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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 factors

- Any debt funded capex, without commensurate equity infusion, 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.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects that the company is likely to maintain its improved revenue while continuing its satisfactory financial risk profile.

Detailed description of the key rating drivers:

Key strengths

Experienced promoters & management

The flagship company of the group to which PSEL belongs is Seshasayee Paper & Boards Limited [SPBL, rated CARE AA-; 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 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.

Growth in total income with consistent operating margins in FY23

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

The revenue increased to Rs 435.43 crores in FY23 from Rs 288.35 crores i.e a growth of ~51%. The growth in revenue was majorly on account of increase in sale of sugar to Rs 308.82 crores in FY23 from Rs 198.41 crores in FY22.The revenue from sugar increased as the volume of sugarcane crushed was at its peak in FY23 reporting a ~43% increase in volume of sugarcane crushed as compared to FY22.In FY23 PSEL reported PBILDT margin of 10.87% (PY:12.33%). The growth of margin was restricted by increase in sugarcane prices and no major increase in sales realization.

Comfortable capital structure with no imminent capex plans

The capital structure remained comfortable with overall gearing below unity and stable interest coverage ratios as on March 31 2023 on account nil term debt and working capital facilities being used sparingly. Further, the company is planning 45 KLPD Distillery-cum-Ethanol plant since June 2019. The total cost is estimated at Rs.90crore to be funded majorly by debt. However, the project is yet to receive environmental clearance which is pending since the last 3 years. The company had applied for loan to Canara bank and there has been no outlay on the project.

Key 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 have been in the range of 9.50% average for the past five years ended March 31, 2023, 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.

Liquidity: Adequate

The liquidity is adequate backed by stable cash accruals with no term loan repayment obligations. The company uses its working capital limits sparingly which provides significant liquidity backup. The company was facing delay in receipt its dues from TNGEDCO. However, with the new scheme of GOI the dues are now being settled in a timely manner leading to improvement in liquidity position of the company. The old dues of TANGEDCO amounting to Rs. 48 crores as on June 03, 2022, for supply of power during the period Jan 2021 - May 2022 is paid in monthly EMI of Rs. 98 lakhs. The current due is received within 2 months of billing. As on March 31, 2023, PSEL has free cash balance of Rs. 31.45 crore.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks: Not Applicable

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
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

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 AA-; 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24
Total operating income	288.35	435.43	NA
PBILDT	35.56	47.33	NA
PAT	29.25	38.34	NA
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	296.33	135.23	NA

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		-	-	-	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 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	-	-	-	-	-	1)Withdrawn (02-Jul-20)
2	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Jul-22)	1)CARE BBB+; Stable (19-Jul-21)	1)CARE BBB+; Stable (02-Jul-20)
3	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (07-Jul-22)	1)CARE BBB+; Stable (19-Jul-21)	1)CARE BBB+; Stable / CARE A2 (02-Jul-20)
4	Non-fund-based - ST-BG/LC	ST	1.00	CARE A2	-	1)CARE A2 (07-Jul-22)	1)CARE A2 (19-Jul-21)	1)CARE A2 (02-Jul-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	Non-fund-based - ST-BG/LC	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.

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About us:

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