Bannari Amman Sugars Limited (Revised)

January 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	750.00 (Reduced from 948.75)	CARE AA-; Stable	Revised from CARE A+; Stable
Long-term / Short-term bank facilities	15.00	CARE AA-; Stable / CARE A1+	Revised from CARE A+; Stable / CARE A1+
Short-term bank facilities	5.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Bannari Amman Sugars Limited (BASL) factors in the steady improvement in the operational and financial performance of the company resulting in improved overall credit metrics for the company. The total operating income (TOI) of the company has grown at compounded annual growth rate (CAGR) around 22% over FY19-FY23 and its overall gearing has improved to 0.37x as on March 31, 2023, from 0.64x as on March 31, 2019. The rating also derives strength from the well-established and long track record of the company in the sugar industry, improving liquidity position marked by improvement in operating cycle from 268 days in FY19 to 189 days in FY23, integrated nature of operations with income from sale of sugar, distilleries and power. The ratings, however, continue to be constrained by the lower sugarcane recovery rates, susceptibility of the revenues and profitability to the demand-supply dynamics, susceptibility to agro-climatic conditions, cyclical and highly regulated nature of the industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in revenue consistently by over 10% y-o-y with PBILDT margin sustaining beyond 15%.
- Significant reduction in leverage levels with total debt to PBILDT sustaining below 0.50x.

Negative factors

- Increase in total debt to PBILDT beyond 2.50x on a sustained basis.
- Prolonged down trend in the sugar industry impacting revenue and profitability leading to PBILDT margin less than 10% on sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the expectation that company will maintain it established market position and is expected to witness steady growth in the medium term.

Detailed description of the key rating drivers:

Key strengths

Established track record in sugar industry

BASL is the flagship company of the group and it has a successful operational track record of almost 40 years in the sugar industry. BASL started production with a single sugar unit in Tamil Nadu with an installed capacity of 1,250 tonnes cane per day (TCD). The capacity was increased in phases through expansion in the existing units and also by addition of new units in Karnataka to the current level of 23,700 TCD.

Integrated nature of operations

BASL is engaged in the manufacturing of sugar, industrial alcohol, granite products and generation of power through sugar co-gen and windmills. As on October 2023, in sugar, BASL has aggregate capacity of 23,700 TCD spread across five units (two in Karnataka & three in Tamil Nadu), two distilleries with a combined capacity of 217.5 KLPD and 129.8 MW of co-generation capacity with six power plants. The company also has seven windmills having capacity of 1250 KW each aggregating 8.75 MW, in the

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

southern part of Tamil Nadu. Besides this, the company has an agri natural fertilisers and granite processing unit. During FY23, sugar division contributed 75% of the total revenue followed by alcohol and power divisions which contributed 12% and 9% of the total revenue. CARE Ratings Limited (CARE Ratings) expects that going forward the sugar division will continue to contribute the highest revenue (70%-75%) for the company while alcohol and power division together are expected to contribute in the range of 20%-23%.

Improvement in the operational performance

BASL has witnessed overall improvement in its operational performance during FY23. During FY23, the aggregate cane crush was 56.57 lakh tonnes with a recovery of 9.53% compared with 49.01 lakh tonnes with a recovery of 9.33% in the previous year. The Co-generation plants generated around 654 million units of power and exported around 453 million units of power to grids in FY23 compared with the generation of 574 million units and export of 393 million units in FY22. The distilleries produced 542 lakh bulk litres in FY23 compared with the production of 124 lakh bulk litres in FY22. Windmills generated 13.81 million units of power and exported 12.06 million units in FY23 to grid compared with the generation of 11.36 million units and export of 10.64 million units in FY22.

Steady growth in the scale of operations with stable margins

The company has witnessed steady and robust growth in its TOI over time. The TOI has grown from ₹1,131 crore in FY19 to ₹2,527 crore in FY23, viz., growth of CAGR around 22%. From FY22 to FY23, the company witnessed growth in TOI by over 28%, its revenue improved from ₹1,970 crore in FY22 to ₹2,527 crore in FY23. The growth was at back of growth in sugar and distillery segment. In line with growth in revenue company also witnessed improvement in PBILDT which improved from ₹187 crore in FY19 to ₹305 crore in FY23 viz. growth of CAGR ~13% though in terms of margin it remained at 12.09% vis-à-vis 16.58% registered in FY19. CARE Ratings believes that company will continue to witness growth in its scale of operations and the total operating income of the company on an average basis will witness improvement in the range of 8-10% while maintaining the PBILDT margins of about 12-13%.

Improving operating cycle

The operating cycle of the company has witnessed steady improvement over time. It has improved from 268 days in FY19 to 189 days in FY23. Inventory which is the major factor in operating cycle stood at 164 days as on March 31, 2023, as against 284 days in FY19. The company has over period consistently reduced its inventory holding period which from FY19 has declined by 120 days, resulting in improvement in operating cycle on account of regular receipt of release order from the Government. As sugarcane is seasonal crop, company procures it during November to April every year. The receivable days of the company stood comfortable at 38 days (PY: 46 days). Furthermore, the average working capital utilisation remained low at about 38% for the 12 months ending in September 2023. CARE Ratings expects that given the regulated nature of sugar industry where government controls the sugar supply in the market, the operating cycle will remain dependent on the release orders received from the government.

Comfortable capital structure with improving debt coverage indicators

The capital structure of the company has been witnessing steady improvement. Gross debt has reduced by about 39% and stood at ₹581.24 crore as on March 31, 2023 (PY: ₹960.63 crore). The total net worth of the company improved by about 9% to ₹1,551.89 crore in FY23 (PY: ₹1,423.40 crore), driven by improved profitability. The overall gearing as on March 31, 2023, improved to 0.37x against 0.67x in FY22. Furthermore, interest coverage ratio improved to 6.19x (FY22: 6.05x), total debt to gross cash accruals (GCA) improved to 2.33x from 5.74x in FY22.

Key weaknesses

Susceptibility of the revenues and profitability to the demand-supply dynamics along with cyclical and regulated nature of sugar industry

Sugar industry is highly regulated industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies. These apart operations are susceptible to cane availability which is a challenge due to adverse climatic conditions. India also continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government.

Continuation of low sugarcane recovery trends for southern states

The recovery rate from the sugarcane in southern states contribute to remain low. The recovery rates for BASL has been in the range of 9.0-9.8% for the past five years ended March 31, 2023, sugar mills however 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: Strong

The liquidity position of the company remains strong marked by strong cash accruals. During FY23, company generated cash accruals to the tune of around ₹250 crore against the repayment obligation of around ₹42 crore. BASL is expected to generate cash accruals in the range of ₹200 crore -₹250 crore against the debt obligation of about ₹80-₹90 crore for FY24 and FY25. Furthermore, the average fund-based working capital utilisation for the past 12 months ending in September 2023 remained comfortable at about 38% which provides additional cushion to the overall liquidity of the company. The company does not have major capex plans and the capex to the tune of ₹40-50 crore for maintenance purpose will be incurred and met through internal accruals. Apart from the maintenance capex, the capex for installing a 3MW incineration plant in Tamil Nadu is under way. The total cost of the project is about ₹120 crore of which ₹60 crore has already been incurred and the balance ₹60 crore will be incurred by March 2024 for the plant to become operational.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

At BASL, in order to preserve environment, the company has been investing in various equipment's for reducing energy and water requirements. The company has also installed Biogas Engine in the effluent treatment plant and is utilising the bio gas for power generation. The company is also in the process of installing CO_2 recovery plant for the recovery of CO_2 gas coming out of distillery fermentation process. As a renewal energy initiative, the company is using wind energy in one of the distillery units. Furthermore, company has efficient health and safety management systems in place, and it is OHSAS-18001:2007 certified. The company also has certifications like ISO 9001: 2015 (quality management systems), ISO 9002, ISO/TS-22002-1:2009 and Halal certification in place. The company also has employee engagement and development plans in place. The company's philosophy on corporate governance envisages the attainment of transparency, accountability and equity in all facets of its operations. The company has established vigil mechanism for directors and employees to report concerns about the unethical behaviour, actual or suspected incidents of fraud or violation of the code of conduct or ethics.

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
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

BASL is the flagship company of Bannari Amman Group (BAG) and is engaged in the manufacturing of sugar, industrial/potable alcohol, bio-compost, granite products and generation of power through windmill and co-generation. Dr S. V. Balasubramaniam is the chairman of the group. The company has aggregate capacity of 23,700 TCD in sugar division,127.50 KLPD in distilleries and 129.80 MW of co-generation capacity. The company also has seven windmills having capacity of 1250 KW each aggregating 8.75 MW, in the southern part of Tamil Nadu.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	1,970.03	2,526.75	1,033.77
PBILDT	189.96	305.39	138.69

PAT	79.98	143.39	62.40
Overall gearing (times)	0.67	0.37	-
Interest coverage (times)	6.05	6.19	8.17

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		-	-	-	620.00	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	30/09/2025	130.00	CARE AA-; Stable
Fund-based - ST-EPC/PSC		-	-	-	5.00	CARE A1+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	10.00	CARE AA-; Stable / CARE A1+
Non-fund-based - LT/ ST-Letter of credit		-	-	-	5.00	CARE AA-; Stable / CARE A1+

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 - ST-EPC/PSC	ST	5.00	CARE A1+	-	1)CARE A1+ (12-Dec-22)	1)CARE A1+ (03-Dec-21)	1)CARE A1+ (07-Dec-20)

2	Non-fund-based - LT/ ST-Letter of credit	LT/ST*	5.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (12-Dec-22)	1)CARE A+; Stable / CARE A1+ (03-Dec-21)	1)CARE A+; Stable / CARE A1+ (07-Dec-20)
3	Fund-based - LT-Cash Credit	LT	620.00	CARE AA-; Stable	-	1)CARE A+; Stable (12-Dec-22)	1)CARE A+; Stable (03-Dec-21)	1)CARE A+; Stable (07-Dec-20)
4	Fund-based - LT-Term Loan	LT	130.00	CARE AA-; Stable	-	1)CARE A+; Stable (12-Dec-22)	1)CARE A+; Stable (03-Dec-21)	1)CARE A+; Stable (07-Dec-20)
5	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	10.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (12-Dec-22)	1)CARE A+; Stable / CARE A1+ (03-Dec-21)	1)CARE A+; Stable / CARE A1+ (07-Dec-20)
6	Fund-based - ST-Working Capital Limits	ST	-	-	-	1)Withdrawn (12-Dec-22)	1)CARE A1+ (03-Dec-21)	1)CARE A1+ (07-Dec-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 - ST-EPC/PSC	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	Simple
5	Non-fund-based - LT/ ST-Letter of credit	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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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