Mawana Sugars Limited

June 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	350.00 (Enhanced from 337.50)	CARE BBB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	-	-	Withdrawn
Long Term Bank Facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating 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 rating also take cognisance of improvement in profitability margins during FY24 (refers to the period from April 1 to March 31) owing to better sales realisations in sugar segment and incremental sales in bagasse segment though moderation reported in scale of operations in FY24. The total operating income of the company moderated to Rs. 1355.09 crore in FY24 from Rs. 1481.71 crore in FY23 owing to complete export ban of sugar by the government. The rating, however, 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.

CARE Ratings Limited has withdrawn the rating assigned to LT/ST proposed working capital limit of Rs. 1.25 crore and term loan of Rs. 11.25 crore since the company has not availed the proposed limit and has repaid the term loans in full and there is no amount outstanding against the same as on date.

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 1.50x
- 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. 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.

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

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 FY24, the sugar division contributed 78.39% (PY: 79.95%) of total gross sales followed by distillery division at 16.12% (PY: 16.27%) and rest 1.29% (PY: 1.60%) from power division.

Moderate operational and financial risk profile

The total operating income of the company moderated to Rs. 1355.09 crore in FY24 from Rs. 1481.71 crore in FY23 owing to complete export ban of sugar by the government in June 2023. However, the same is expecting to improve going forward owing to incremental sales from the increased stock levels and increase in price of sugar leading to better sales realisation. PBILDT increased both in absolute amount and in terms of margins in FY24 mainly on account of increase in efficiency and better realizations. PBILDT margins stood at 6.91% in FY24 improved from 5.43% in FY23 owing to better sales realisations in sugar segment and incremental sales in bagasse segment.

The capital structure of the company moderated during FY24 on account of higher working capital borrowings while improvement is reported in interest coverage ratio of the company. The long-term debt to equity ratio and overall gearing ratio stood at 0.01x and 1.27x in FY24 as against 0.09x and 0.92x in FY23. The interest coverage ratio of the company improved to 3.16x in FY24 from 2.90x in FY23. The total debt to PBILDT however moderated to 6.07x in FY24 from 4.76x in FY23 on account of higher debt levels.

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 209 days for FY24 from 165 days in FY23. The working capital cycle of the company further elongated to 168 days in FY24 as against 124 days in FY23 as the company has paid-off its past cane dues in last 2 fiscals. The trade payables of the company stood at Rs. 150.34 crore as on March 31, 2024 (PY: Rs. 201.24 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 will be maintaining the same going forward. Consequently, the average creditor period of the company has reduced to 50 days in FY24. The high working requirements were largely met through bank borrowings which remained almost fully utilised for last twelve months ended April 2024.

Exposure towards subsidiaries/associates

MSL has 2 subsidiaries; Siel Industrial Estate 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. The company has total group exposure amounting to Rs. 106.21 crore as on March 31, 2024 pertaining to investment in subsidiaries and affiliate companies. The adjusted overall gearing stands at 1.66x as on March 31, 2024 (PY – 1.19x) for the same, any significant change in the group exposure will be a key monitorable going forward.

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 liquidity profile of the company is adequate with free cash and bank balance of around Rs. 9.98 crores as on March 31, 2024. The company is expected to generate gross cash accruals of Rs. ~55 crore as against Rs. 4.76 crore debt repayment obligations for FY25. The capex requirements of the company are modular at around Rs. 10 to 15 crore which will majorly be funded through internal accruals. The company has sugar stock of around Rs. 760 crores as on May 31, 2024 out of which around Rs. 545 crore is pledged for working capital and rest is free. The average working capital utilisation is ~97.65%.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar
Financial Ratios – Non financial Sector
Withdrawal Policy

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, 2024, 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, 2023 (A)	March 31, 2024 (A)
Total operating income	1,481.71	1,355.13
PBILDT	80.49	93.62
PAT	17.24	42.59
Overall gearing (times)	0.92	1.27
Interest coverage (times)	2.90	3.16

A: Audited 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		-	-	-	350.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	Dec 2023	0.00	Withdrawn
Fund-based - LT/ ST-Working Capital Limits		-	-	-	0.00	Withdrawn

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 2024-2025	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
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	-	-	-	1)CARE BBB; Stable / CARE A3+ (06-Jul-23)	1)CARE BBB; Stable / CARE A3+ (07-Jul-22)	1)CARE BBB-; Stable / CARE A3 (01-Sep-21)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB; Stable (06-Jul-23)	1)CARE BBB; Stable (07-Jul-22)	1)CARE BBB-; Stable (01-Sep-21)
3	Fund-based - LT-Cash Credit	LT	350.00	CARE BBB; Stable	-	1)CARE BBB; Stable (06-Jul-23)	1)CARE BBB; Stable (07-Jul-22)	1)CARE BBB-; Stable (01-Sep-21)

LT: Long term; ST: Short term; LT/ST: 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.

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About us:

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