Ponni Sugars (Erode) Limited

June 27,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	15.00 (Reduced from 30.00)	CARE A-; Stable	Revised from CARE BBB+; Stable
Short-term bank facilities	1.00	CARE A2+	Revised from CARE A2

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The upgrade in ratings assigned to bank facilities of Ponni Sugars (Erode) Limited (PSEL) considers the consistent revenue and profitability reported by the company over the years. The upgrade also factors in its improved liquidity owing to steady gross cash accruals (GCA) and minimal dependency on external debt.

In FY24, PSEL reported revenue of ₹421 crore, which was broadly consistent with revenue of ₹435 crore reported in FY23 (in FY22, the revenue was ₹288 crore). Profitability margin remined healthy and consistent at around 10-12% from FY21-FY24. The company's net worth is sizable at ₹261 crore as on March 31, 2024, excluding investments in group companies.

Ratings continue to derive strength from experience of promoters in the sugar industry and its partially integrated operations with the Cogen unit. Ratings are partially tempered by PSEL's moderate scale of operations, vulnerability of operations to vagaries of nature, seasonal nature of business, absence of ethanol manufacturing, which leads to product concentration and restricts profitability, and regulated nature of the sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly increasing in revenues (over ₹700 crore) and improvement in profitability margin at 14% supported by increasing volumes crushed and improvement of recovery rates.

Negative factors

- Debt funded capex resulting in overall gearing more than 0.50x.
- Declining scale of operations to less than ₹350 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin, declining below 10% on sustained basis.
- Inordinate delay in realisation of power dues impacting cashflows, necessitating PSEL to utilise working capital lines fully.

Analytical approach: Standalone

Outlook: Stable

PSEL will continue to benefit from its established market position and healthy operating efficiency of sugar business. The financial and liquidity profile of the company is expected to remain strong.

Detailed description of key rating drivers:

Key strengths

Experienced promoters & management

Seshasayee Paper & Boards Limited (SPBL) is the flagship company of the group to which PSEL belongs. is. The group's promoters have over five decades of experience in industries such as paper & paper products, sugar, chemicals, and project consultancy among others. 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 seasonal nature and other challenges in the sugar industry.

Consistent scale of operations and profitability

In FY24, PSEL reported revenue of ₹421 crore, which was broadly consistent with revenue of ₹435 crore reported in FY23 (in FY22 the revenue was Rs288 crore). Profitability continued to be stable with PBILDT margin at 10.22%. Revenue marginally declined due to decrease in sales volume, which was compensated to some extent by increase in sales realisation.

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

Comfortable capital structure with no imminent capex plans
PSEL's capital structure continued to be comfortable with no external debt and with a TNW of ₹261 crore as on March 31, 2024, excluding investments in group companies. PSEL has abandoned its debt funded capex plan of ~₹90 crore to establish an ethanol unit as part of its sugar complex due to non-availability of clearance from Tamil Nadu Pollution Control Board.

Partially integrated operations and revenue generation from sale of by-products
Apart from sale of sugar, PSEL also generates revenue from sale of power (~18% of the revenue). PSEL is partially integrated with a 19 MW full capacity co-generation plant, which is operated at a PLF of 70%-90% depending on cane volume. Of the total production, around 5-6 MW is used for auxiliary and self-consumption. The balance 9–11 MW is sold to TANGEDCO (Tamil Nadu Generation and Distribution Corporation Ltd) per rate fixed by TNERC (Tamil Nadu Electricity Regulatory Commission) periodically. PSEL has entered a power purchase agreement (PPA) with TANGEDCO in 2011 for the said supply of power for a minimum of 20 years. The company also derives ~16% of revenue from sale of bagasse (to paper manufacturing companies) and molasses (to animal feed companies).

Key weaknesses

Regulated nature of the industry
The sugar industry is regulated and vulnerable to government policies for reasons such as its importance in the Wholesale Price Index (WPI) as it is classified as an essential commodity. On its part, the government resorts to regulations such as fixing raw material prices through State Advised Prices (SAP) and Fair & Remunerative Prices (FRP), setting quotas for export of sugar. All these factors impact cultivation patterns of sugarcane in the country and affects profitability for sugar companies.

Operations vulnerable to vagaries of nature and continuation of low recovery trends for southern states of India
Being directly dependent on the sugarcane crop and its yield, the sugar industry is susceptible to agro -climatic risks. Climatic conditions, more specifically, monsoons, influence operational parameters for a sugar entity, such as crushing period and sugar recovery levels. The degree of dispersion of monsoon precipitation across sugar-growing areas also leads to fluctuating trends in sugar production across regions. This is more critical for PSEL, which operates in Erode that has historically received below par rainfall. However, this risk is partly offset due to its command area for sourcing sugarcane also covers the Cauvery River banks, where water availability is generally not a serious concern. CARE Ratings Limited (CARE Ratings) notes that recovery rates for PSEL have been 9.67% on an average for four years ended March 31, 2024. However, sugar mills in northern states, particular in Uttar Pradesh have been able to report higher recovery rates of around 12%. Higher recovery rates lead to reducing cost of production of sugar, supporting margins.

Liquidity: Strong
PSEL's liquidity is strong owing to steady cash accruals and no external debt obligations. In FY24, PSEL reported GCA of ₹57 crore against nil repayment liabilities. The company sparsely uses its sanctioned working capital limits of ₹15 crore, which provides significant backup. As on March 31, 2024, PSEL had free cash and bank balance of ₹40.58 crore (current account and cash in hand: ₹6.4 crore; deposits with maturity less than 12 months: ₹39.94 crore). The old dues of TANGEDCO amounting to ~₹48 crore as on June 03, 2022, for supply of power in January 2021-May 2022 are being paid in monthly EMI of ₹98 lakhs in timely manner and as on May 2024 old dues outstanding is ~₹25 crore. For the current sale of power to TANGEDCO the dues are received within 2-3 months of billing.

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

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
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food and other products	Sugar

Incorporated in 1996, PSEL is engaged in 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 SPBL, is one of the leading integrated pulp and paper manufacturer. The group has interests in engineering consultancy, battery manufacturing and technology research through other group entities.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	288.35	435.43	421.31
PBILDT	35.56	47.33	43.06
PAT	29.25	38.34	46.86
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	296.33	135.23	331.23

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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		-	-	-	10.00	CARE A-; Stable
Fund-based - LT-Cash Credit		-	-	-	5.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	1.00	CARE A2+

Annexure-2: Rating history for 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-Cash Credit	LT	10.00	CARE A-; Stable	-	1)CARE BBB+; Stable (04-Jul-23)	1)CARE BBB+; Stable (07-Jul-22)	1)CARE BBB+; Stable (19-Jul-21)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE A-; Stable	-	1)CARE BBB+; Stable (04-Jul-23)	1)CARE BBB+; Stable (07-Jul-22)	1)CARE BBB+; Stable (19-Jul-21)
3	Non-fund-based - ST-BG/LC	ST	1.00	CARE A2+	-	1)CARE A2 (04-Jul-23)	1)CARE A2 (07-Jul-22)	1)CARE A2 (19-Jul-21)

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on 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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