

## Athani Sugars Limited

December 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	627.06 (Enhanced from 558.27)	CARE BBB-; Stable	Reaffirmed
Short-term bank facilities	10.00 (Reduced from 26.29)	CARE A3	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Athani Sugars Limited (ASL) considers that through scale of operations declined in FY24 due to macroeconomic factors resulting in decline in sugar crushing and sugar sales, operating cashflows has been better in H1FY25 with the company being able to sell majority inventory and reduce debt levels. While CARE Ratings Limited (CARE Ratings) estimates that sugar crushing would improve in FY25, regulatory or climatic changes impacting the company's sales would be a negative for the company's credit profile.

Ratings assigned continues to positively factor in experienced promoters with established track record in the sugar industry and diversified revenue streams with integrated operations of sugar, ethanol and power division mitigating risk in the sugar business. In FY24, the company increased its capacity across three divisions, which is expected to benefit in improving its revenue levels in FY25.

However, rating strengths are partially offset by leveraged capital structure and moderate debt coverage indicators considering increasing debt levels to fund past capex and to meet working capital requirements, given the working capital intensive operations. Ratings are further constrained by the company's debt funded capex plans in the near term and regulated and cyclical nature of sugar industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Improvement in scale to over ₹1,800 crore while maintaining profitability margins over 12% on a sustained basis, total outsider liabilities to tangible net worth (TOL/TNW) below 2.5x and current ratio above unity.

#### Negative factors

- Decline in revenue/operating profit beyond 20%, leading to deterioration in liquidity.
- Moderation in capital structure with overall gearing over 3.5x.
- Adverse changes in the government policies affecting the company's operations and cash flow.

#### Analytical approach: Consolidated

Consolidated operational and financial performance of the company with its wholly owned subsidiary, Shivneri Sugars Limited, has been considered.

#### Outlook: Stable

Stable outlook reflects CARE Ratings' expectation of the company to improve its scale of operations, sustained profitability margin backed by capacity enhancement and improving sales realisation in the sugar and distillery segment.

### Detailed description of key rating drivers:

#### Key strengths

##### Scale of operations declined in FY24 however expected to improve in current fiscal year

ASL reported a 36% y-o-y decline in total operating income (TOI) from ₹1676 crore in FY23 to ₹1064 crore in FY24 considering lower sales volume in sugar and distillery division due to several factors, including reduction in sugar cane crushed in FY24, considering deficient rainfall conditions in Maharashtra and Karnataka resulted in decrease in aggregated cane crushed in FY24 by 14%. The government-imposed ban on sugar export for the 2023-24 sugar season, due to which, the company's sugar export

<sup>1</sup>Complete definition of ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Limited's publications.

constituting ~30-34% of the total revenue, dropped to zero in FY24. Government restricted diversion of sugar syrup and B heavy molasses for production of ethanol in December 2023 resulted in a dip in revenue from the distillery segment. Sugar segment profitability impacted in FY24 due to lower sugar recovery in the year, as deficient rainfall impacted sugar cane quality. However, the company's overall profitability margins improved from 13.42% FY23 to 17.69% in FY24 due to higher closing stock. In H1FY25 company ASL reported TOI of ₹692 crore.

With favourable weather condition in the current fiscal year and removal of restrictions by the government on diversion of sugar syrup and B heavy molasses for ethanol production, CARE Ratings expects the company to report revenue growth of 50-60% in FY25.

#### **Diversified revenue streams and integrated operations, mitigating risk in sugar business to some extent**

ASL has four manufacturing units at Kempwad (Karnataka), Shahuwadi, Rayat, and Bhudargad, Maharashtra. ASL has combined capacity of 23,400 TCD from, 230 KLPD of distillery and 66 MW of cogeneration. In FY24, the sugar division contributed 58% (PY: 70%) of total gross sales followed by distillery division at 34% (PY: 24%) and 5% (PY: 5%) from sale of power.

#### **Capacity expanded in FY24 will benefit the company in the current sugar season**

In FY24, the company expanded its distillery segment in Shahuwadi unit from 90 KLPD to 140 KLPD. The extended capacity is expected to be operational from the current year's crushing season. It also enhanced its installed capacity in the sugar division of Rayat unit from 2500 TCD to 4900 TCD and a 14 MW cogen plant in Rayat Unit. Overall distillery capacity has now been increased from 180 KLPD to 230 KLPD. Sugar capacity enhanced from 21,000 TCD to 23,400 TCD and cogeneration power plant capacity from 52 MW to 66 MW. These enhanced capacities are fully operational from current fiscal year thus improvement in revenue is expected in current fiscal year.

#### **Long-standing track record of the company in the sugar industry with experienced promoters**

ASL was promoted by Shrimant Balasaheb Patil (Non-Executive Chairman) in 1995 to undertake sugar and sugar-related business. The company was operational since 2000, with 2000-2001 being its first crushing season. Shrimant B. Patil is an agriculture science graduate and has over three decades of experience in the sugar industry. He is also a social worker and is related to social bodies, co-operative credit societies, educational institutions, and irrigation societies, among others, and was a member of Revenue Tribunal of Government of Karnataka. He looks after the company's operations since its inception. He is ably supported by Shrinivas S. Patil (Managing Director), who has seven years of experience in the sugar industry and Yogesh S Patil (Executive Director & CFO), who has five years of experience in the sugar industry.

#### **Key weaknesses**

##### **Capital structure is expected to remain leveraged in the near term owing to debt funded capex plans**

The company's overall debt consists of term loans taken to expand its production capacity and working capital loans to support its large scale of operations, resulting in high levels of debt. In FY24, the company availed fresh term loan for expansion of distillery and cane crushing capacity. Overall gearing moderated at 3.5x as on March 31, 2024 (PY: 2.66x) due to dip in profitability, which resulted in low profit accretion to net worth and rise in working capital borrowings due to increased inventory. The company's interest coverage also deteriorated from 2.86x in FY23 to 2.02x in FY24 due to decline in profit before interest, lease rentals, depreciation, and taxation (PBILDT) on an absolute basis.

The company is under process of incurring capex in its Kempwad Unit in the next two years to expand its distillery capacity from 90 KLPD to 400 KLPD, which would be funded through debt of ₹185 crore and balance ₹20.89 crore through internal accruals. Though company is expected to generate healthy profitability in the current sugar season, however, its ability to improve coverage indicators in the near term would be a key monitorable.

##### **Working capital intensive business**

The sugar industry being seasonal has high working capital requirements in the peak season, which is from October to April, as this is the season of procurement and crushing. Companies have high working capital requirements in the peak season and to procure their primary raw material, sugarcane and manufacture sugar in this period. The company's operating cycle remains elongated to 180 days in FY24 from 87 days in FY23 due to increase in inventory days from 115 days to 246 days in FY24 as sugar export was banned, which resulted in high closing stock. Since the harvest season of the sugarcane is between October to April while the sugar production is throughout so, the company has to stock up required amount of inventory to avoid shortages throughout. The company gets the payments in advance from sugar and distillery customers and receives the payments within one month from DISCOM for sale of power. The company clears its creditors, farmers, within one month.

##### **Cyclical and regulated sugar business**

The industry is cyclical by nature and is vulnerable to the government policies for reasons such as its importance in the wholesale price index (WPI), as it classifies as an essential commodity. The government on its part resorts to regulations such as fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). These factors impact cultivation patterns of sugarcane in the country, affecting profitability of sugar companies. Thus, the company's performance can be impacted by disproportionate increase in cane price in a particular year. Profitability remains vulnerable to the Government's policies on exports, MSP and remunerative ethanol prices. Cyclicity in sugar production results in volatility in sugar prices. However, sharp contraction in sugar prices is curtailed after the Central Government introduced MSP in June 2018.

## Liquidity: Adequate

The company's liquidity is adequate marked by satisfactory gross cash accruals (GCA) of ~₹99 crore generated against repayment obligation of ₹54 crore. Since the company expanded its cane crushing and distillery capacity in FY24, and adequate weather conditions in Karnataka and Maharashtra, production is expected to increase in the current fiscal year, which is anticipated to generate GCA sufficient to cover its repayment obligations on time. Average utilisation of working capital limits stood at ~72%-82% for 12-months ending October 2024. ASL has free cash & bank balance of ₹5.98 crore as on March 31, 2024. Operating cycle elongated to 180 days (PY: 87 days) considering high closing stock company had inventory of ₹539 crore as on March 31, 2024, which the company has entirely sold off in 8MFY25.

## 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](#)

[Consolidation](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food & other products	Sugar

ASL was incorporated in 1995 by Shrimant Balaseheb Patil to undertake sugar and sugar-related activities. The company has four manufacturing units, of which, one is in Karnataka and remaining three are in Maharashtra. The sugar plant has total crushing capacity of 23,400 tonnes crushing per day, 230 kilograms litre per day distillery unit and 66-mega/watt co-generation unit. The company is under process of incurring capex in its Kempwad Unit to expand its distillery capacity from 90 KLPD to 400 KLPD.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	1,676.07	1,064.30	691.69
PBILDT@	224.89	188.27	108.28
PAT	75.31	37.62	20.42
Overall gearing (times)	2.66	3.50	NA
Interest coverage (times)	2.86	2.02	NA

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

@PBDIT for March 31, 2023, and March 31, 2024, are on Ind-AS basis while for September 30, 2024, it is on IGAAP basis.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	February 2030	267.06	CARE BBB-; Stable
Fund-based - LT-Working Capital Limits	-	-	-	-	360.00	CARE BBB-; Stable
Fund-based - ST-Working Capital Limits	-	-	-	-	10.00	CARE A3

**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-Working Capital Limits	LT	360.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Oct-23)	1)CARE BB+; Stable (06-Jan-23)	1)CARE BB; Stable (04-Jan-22) 2)CARE BB; Stable (10-Dec-21)
2	Fund-based - ST-Working Capital Limits	ST	10.00	CARE A3	-	1)CARE A3 (05-Oct-23)	1)CARE A4 (06-Jan-23)	1)CARE A4 (04-Jan-22) 2)CARE A4 (10-Dec-21)
3	Fund-based - LT-Term Loan	LT	267.06	CARE BBB-; Stable	-	1)CARE BBB-; Stable (05-Oct-23)	1)CARE BB+; Stable (06-Jan-23)	1)CARE BB; Stable (04-Jan-22)

LT: Long term; ST: Short term.

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

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Fund-based - ST-Working Capital Limits	Simple

**Annexure-5: Lender details**

To view lender-wise details of bank facilities please [click here](#)

**Annexure-6: List of entities consolidated**

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Shivneri Sugars Limited	Full	Subsidiary

**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 clarifications.

## Contact us

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