# The Ugar Sugar Works Limited

January 03, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 700.00<br>(Enhanced from 600.00) | CARE BBB-; Stable | Reaffirmed |
| Fixed deposit | 80.00 | CARE BBB-; Stable | Assigned |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of The Ugar Sugar Works Limited (USWL) considers that dip in revenue in FY24 was considering macroeconomic factors resulting in decline in sugar crushing and sugar sales. Diversion of sugar syrup for ethanol production was also reduced due to government's restriction on diversion of syrup for ethanol production. High raw material and fuel prices against low realisation impacted the company's profitability. CARE Ratings Limited (CARE Ratings) notes that the sugar crushing season for current fiscal has commenced from November for its Ugar khurd and Jewargi units. USWL is likely to generate a healthy profit before depreciation, interest, and taxes (PBDIT) in H2FY24 supported by good cane availability and optimum utilisation of its juice-based distillery unit. CARE Ratings notes that the company will be utilising proceeds of funds raised via fixed deposits (FD) for procurement of raw material to control its raw material prices for grain-based distillery, which is expected to improve profitability.

CARE Ratings continues to positively factor in the company's diversification into ethanol production, which translated into diversified revenue streams, leading to mitigation of the risk related to the cyclical and seasonal sugar industry to a certain extent. USWL's ability to sustainably improve its capacity utilisation for ethanol production, while maintaining low inventory levels under the sugar segment and offsetting losses in the upcoming quarters will be a key monitorable for its credit profile.

Ratings also consider cordial relations with local framers, leading to adequate procurement of cane, presence in a high recovery zone, and positive push from the government to achieve the ethanol blending programme (EBP) timelines. Ratings also derive strength from experienced promoters and their established presence in the sugar and related industries.

However, rating strengths are partially offset by moderate capital structure and debt coverage, the company's presence in a working capital intensive business, and its operations in a cyclical and regulated the industry, which is inherent to agro-climactic risk.

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

### Positive factors

- Sustainable scale of operations above ₹1,200 crore with a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 11% and an interest coverage above 4.50x with total outside liabilities to tangible net worth (TOL/TNW) below 3x.

### Negative factors

- Decline in PBIDLT below 8%.
- Debt-funded capex, resulting into an overall gearing of over 2.50x and total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) of over 5.50x.

## Analytical approach: Standalone

## Outlook: Stable

Stable outlook reflects CARE Ratings' expectation of the company to improve its scale of operations, sustained profitability margin backed by operationalization of 800 KLPD multi-feed distillery unit and improving sales realisation in the sugar and distillery segment.

## Detailed description of key rating drivers:

### Key strengths

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

#### **Extensive experience of promoters in the sugar industry**

USWL was set up in 1939 in the Ugar Khurd, Karnataka with an installed capacity of 500 tonne of cane per day (TCD) and has ~85 years of experience in a similar line of sugar business. Currently, the company operates two sugar units – one in Ugar, Khurd and another in Jewargi, Kalaburgi, both in Karnataka. The company has a total installed capacity of 24,200 TCD with a 59.50-megawatt (MW) co-generation unit and an 845-kilolitre per day (KLPD; 45 KLPD molasses-based and 800 KLPD direct route, cane juice or syrup route-based) ethanol plant in the sugar season, which can be converted into a 400-KLPD grain-based ethanol plant in the offseason. The company is part of the Shirgaokar Group (SB group) and is actively managed by Neeraj Shirgaokar and Chandan Shirgaokar in the capacity of the company's managing directors, supported by an experienced management team.

#### **Integrated business model with diversified revenue streams**

USWL's Khurd unit currently operates a 20,000 TCD sugar plant and a co-generation unit with an installed capacity of 44 MW and the company had an existing molasses-based distillery with an installed capacity of 45 KLPD, which was primarily used for spirit and Indian-made foreign liquor (IMFL). In December 2022, the company commissioned its 800 KLPD sugarcane juice-based distillery operations for producing ethanol. The integrated nature of operations mitigates risk associated with sugar price volatility and its cyclical nature to some extent. The plant also has a capacity of 400 KLPD grain-based ethanol in the off season. Grain based plant was operational in H1FY25 and produced 254 lakh litres of ethanol, however, due to high raw material and fuel prices and restriction on price realisation impacted the company's profitability. It is now purchasing raw material (Maize) to ensure its sufficient availability in offseason. However, given that the company availed debt for expansion of its distillery capacity and hence operationalisation of ethanol production plant at envisaged levels and healthy revenue stream from this would be a key monitorable. The company also has another unit at Jewargi with a 4,200 TCD capacity. The unit is partially integrated with a co-generation installed capacity of 15.5 MW. However, the company does not have other distillery capacity under the Jewargi unit.

#### **Adequate procurement of cane and presence in a high recovery zone**

The command area of Ugar comprises over 80 villages with total land under sugarcane cultivation to the tune of ~76,000 acre. Nearby sugar factories to the Ugar-Khurd unit includes Athani Sugars Limited (rated 'CARE BBB-; Stable'), Shiraguppi Sugars Works Limited, and Raibaug SSK, and close to the Jewargi unit is Renuka Sugars Limited. The command area has been well-irrigated over the years with consistent supply of water through rivers such as Krishna, which is ~1 km from the plant and from where water is distributed to agricultural lands and industries around Ugarkhurd and Jewargi units respectively.

The favourable climatic conditions and adequate irrigation facilities have rendered sugarcane with a high recovery rate ranging between 10.8-11.7%. Promoters have a wide acceptance among local farmers and enjoy cordial relationships, facilitating the company's cane procurement initiatives on such a large scale (average crushing of ~20 lakh metric tonne [MT] in the last three crushing seasons).

### **Key weaknesses**

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

USWL reported a 36% decline in total operating income (TOI) from ₹1795 crore to ₹1150 crore in FY24, considering lower sales volume in sugar and distillery division due to several factors, including reduction in sugar cane crushed in FY24 owing to deficient rainfall conditions in Karnataka. The government-imposed ban on sugar export for the 2023-24 sugar season, which impacted sales price of sugar due to its over-supply in domestic market. The government restricted diversion of sugar syrup 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. In H1FY25, the company reported TOI of ₹608 crore. In current sugar season, due to favourable rainfall company is expected to crush higher sugarcane. The company has been witnessing average recovery of 10.8% considering good sugar cane quality. As sugar syrup and grain-based ethanol plants are operational, improvement in revenue and profitability is expected in FY25.

#### **Moderate capital structure and debt coverage indicators**

The company's debt profile consists of term loans, working capital borrowing, harvest and transportation loan and unsecured loan from promoters. The company has high working capital requirements in the peak season and to procure their primary raw material, sugarcane and manufacture sugar in this period. Due to GOI restriction on diversion of sugar for ethanol production resulted in elongation in average inventory days thus proportionality working capital borrowings has also gone up, increasing the company's overall debt profile against declined profitability due to dip sales and sugar realisation. On an absolute basis, PBILDT declined which resulted in lower accretion of profit to the net worth resulting in moderating overall gearing and TOL/TNW from 1.82x and 3.32x in FY23 to 2.42x and 3.90x respectively in FY24. PBILDT/interest also deteriorated from 4.29x in FY23 to 1.59x in FY24 owing to decline in PBILDT on absolute terms against high interest cost.

#### **Losses in H1FY25 however expected to improve in 2$^{nd}$ half of fiscal year**

Due to absence of operational activities related to sugar, the company generally report losses in 1st half of the fiscal. Though the company reported revenue of ₹608 crore in H1FY24 from sale of sugar stock and grain-based ethanol sale, however, due to insufficient availability of bagasse, it had to use coal as a fuel for production of ethanol through grain, which is comparatively expensive and high maize prices impacted profitability. In H1FY25, the company also availed term loan amounting to ₹40 crore for purchase of ancillary boiler to improve efficiency of grain-based ethanol plant, which resulted in increase in interest cost. Due to increase in harvesting cost the company had made certain provision for H & T related expenses pertaining to season 2023-24, which further impacted profitability.

The company is raising funds through FD route, proceeds of which, will be utilised to procure raw material (Maize, which is used as raw material for grain based ethonal production), which is currently trading at lower prices. With favourable weather condition in the current fiscal year, removal of restrictions by the government on diversion of sugar syrup for production of ethanol and operationalisation of grain-based plant is expected to revenue growth of 45-55% in FY25.

**Working capital-intensive business**
The sugar industry being seasonal has high working capital requirements in 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 generally remains elongated, however, with sale of sugar stock in the year and diversion of sugar cane to ethanol has led to lower inventory days however compared to FY23 inventory days in FY24 elongated to 143 days compared to 130 days in FY23 as government restricted diversion of sugar syrup for ethanol production, which resulted in higher sugar stock. In relation to receivables for ethanol sales, the company receives payments from oil manufacturing companies (OMCs) within 20 days from the date of sale to customers and receives the payments within one month from Escoms for the sale of power. Ugar clears its creditors, the farmers, generally within 14-15 days.

**Cyclical and regulated sugar business**
The industry is cyclical by nature and is vulnerable to 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. The company's performance can be impacted by disproportionate increase in cane price in a particular year. Profitability remains vulnerable to Government's policies on exports, MSP and remunerative ethanol prices. Cyclicality 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 is witnessing good availability of sugar cane and better recovery in current sugar season due to adequate weather conditions in Karnataka. Removal of GOI ban on use of sugar syrup for ethanol, production is expected to increase this year, and the company is anticipated to generate healthy GCA, which would be sufficient to cover debt repayment obligations. Presence of grain-based and direct sugar juice-based ethanol production capacity is expected to generate cash flows throughout the year going forward. Average utilisation of working capital borrowings for 12 months ending October 2024 is ~75%. The company had cash and bank balance of ₹22 crore as on September 30, 2024. The working capital utilisation was moderate with an average monthly utilisation of 74% ended October 31, 2024.

## 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

## 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 |

USWL was set up in 1939 in the Ugar Khurd, Karnataka, with an installed capacity of 500 TCD. Currently, the company operates two sugar units – one in Ugar, Khurd and another in Jewargi, Kalaburgi, both in Karnataka. The company has a total installed capacity of 24,200 TCD with a 59.50-MW co-generation unit and a 845-KLPD multi feed distillery. In FY23, the company commissioned its 800 KLPD direct route (cane juice or syrup route)-based ethanol plant, which can be converted into a 400-KLPD grain-based ethanol plant in the offseason. The company is part of the Shirgaokar Group (SB group) and is actively managed by Neeraj Shirgaokar and Chandan Shirgaokar in the capacity of the company's managing directors, supported by an experienced management team.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | September 30, 2024 (UA) |
|---|---|---|---|
| Total operating income | 1,794.80 | 1,149.73 | 608.22 |
| PBILDT | 208.80 | 70.57 | -37.44 |
| PAT | 103.05 | 21.14 | -71.85 |
| Overall gearing (times) | 1.82 | 2.42 | 2.61 |
| Interest coverage (times) | 4.29 | 1.59 | NM |

A: Audited UA: Unaudited NM: Not Meaningful; 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

**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 |
|---|---|---|---|---|---|---|
| Fixed Deposit | - | - | - | - | 80.00 | CARE BBB-; Stable |
| Fund-based - LT-Cash Credit | - | - | - | - | 466.00 | CARE BBB-; Stable |
| Fund-based - LT-Term Loan | - | - | - | March 2028 | 234.00 | CARE BBB-; Stable |

## 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-Term Loan | LT | 234.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (17-Nov-23)<br><br>2)CARE BBB-; Positive (19-Jul-23) | - | - |
| 2 | Fund-based - LT-Cash Credit | LT | 466.00 | CARE BBB-; Stable | - | 1)CARE BBB-; Stable (17-Nov-23)<br><br>2)CARE BBB-; Positive (19-Jul-23) | - | - |
| 3 | Fixed Deposit | LT | 80.00 | CARE BBB-; Stable | - | - | - | - |

LT: Long 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 | Fixed Deposit | Simple |
| 2 | Fund-based - LT-Cash Credit | Simple |
| 3 | Fund-based - LT-Term Loan | Simple |

## Annexure-5: Lender details

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|---|
| 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 clarifications.

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**About us:**
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