# The Ugar Sugar Works Limited

May 21, 2025

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 700.00 | CARE BB+; Negative | Downgraded from CARE BBB-; Stable |
| Fixed deposit | 80.00 | CARE BB+; Negative | Downgraded from CARE BBB-; Stable |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has downgraded the rating assigned to bank facilities and fixed deposit (FD) instrument of The Ugar Sugar Works Limited (USWL) from 'CARE BBB-' to 'CARE BB+' and outlook revised from Stable to Negative.

Revision in ratings reflects significant under-achievement of profitability by the company in FY25 (refers to April 01, 2024, to March 31, 2025) primarily due to lower sugarcane crushing, increase in fair and remunerative price (FRP) on sugarcane though minimum selling price (MSP) as well ethanol prices from sugar syrup remaining unchanged. Lower profitability and increase in debt levels have led to deterioration in capital structure and debt coverage indicators. With upcoming high debt repayments and inherent agro-climatic and regulatory risks associated with sugar industry, the company's liquidity is likely to remain under stress in near term and hence Negative Outlook.

CARE Ratings continues to positively factor in the company's diversified revenue streams from sugar, ethanol and co-generation, leading to mitigation of the risk related to the cyclical and seasonal sugar industry to a certain extent. For FY26, CARE Ratings notes the company plans to operate distillery on maize which is expected to reduce the loss/ achieve break-even in H1FY26 which would help in improving the profitability for FY26. 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 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 8% and an interest coverage above 3.0x with total outside liabilities to tangible net worth (TOL/TNW) below 3x.

### Negative factors

- Decline in PBIDLT below 3%.
- Debt-funded capex, resulting an overall gearing of over 3.50x and total debt to profit before interest, lease rentals, depreciation, and taxation (TD/PBILDT) of over 15.0x.

## Analytical approach: Standalone

## Outlook: Negative

Revision in outlook from 'Stable' to 'Negative' reflects the company's liquidity is expected to remain under stress due to high upcoming debt repayments and uncertainty around estimated sugarcane availability which is inherently exposed to vagaries of nature. The outlook may be revised to stable in case the company is able to generate estimated profitability for FY26.

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

## Detailed description of key rating drivers:

## Key weaknesses

**Profitability declined in FY25 however expected to improve in H1FY26**
Though the company's scale of operations improved from ₹1149 crore in FY24 to ₹1329 crore in FY25 mainly supported by distillery division which contributed 47% total revenue in FY25 against 36% in FY24. However, the company reported negative profit before tax (PBT) of ₹22.11 crore in FY25 against ₹29.80 crore PBT in FY24 owing to lower than estimated sugar crushing, increase in sugarcane's FRP without corresponding increase in sugar's MSP and non-revision in ethanol prices produced from cane syrup. The company had done substantial investments in the distillery division, leading to increased interest and repayment obligations, and higher depreciation expenses.

The company has 800 KLPD distillery unit of which 400KLPD can also be operated on multi-feed basis. In FY26, the company is planning to operate the 400KLPD unit on maize feed which has better margins and therefore expects to minimise the losses in off season.

**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 primary raw material, sugarcane and manufacture sugar in this period. The company has also started procuring maize for ethanol production and due to high raw material cost in FY25, the company's working capital borrowings increased significantly thus increasing overall debt profile against declined profitability. On an absolute basis, PBILDT declined which resulted in lower accretion of profit to the net worth resulting moderating overall gearing and TOL/TNW from 2.42x and 3.90x as on March 31, 2024, to 2.83x and 4.21x, respectively, as on March 31, 2025. Interest cover also deteriorated from 1.59x in FY24 to 0.83x in FY25 owing to decline in PBILDT on absolute terms against high interest cost.

**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 to procure their primary raw material, sugarcane and manufacture sugar in this period. The company's operating cycle generally remains elongated, working capital borrowings increased from ₹365 crore as on March 31, 2024, to ₹444 crore as on March 31, 2025. The company reported inventory stock of ~₹526 crore as on March 31, 2025, against ₹485 crore as on March 31, 2024. In relation to receivables for ethanol sales, the company receives payments from oil manufacturing companies (OMCs) in 20 days from the date of sale to customers and receives payments in one month from Escoms for the sale of power. USWL clears its creditors, the farmers, generally within 14-15 days.

**Cyclical and regulated sugar business**
The industry is cyclical and vulnerable to government policies due to 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.

## Key strengths

**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; experience in sugar business. Currently, the company operates two sugar units – one in Ugar, Khurd and another in Jewargi, Kalaburgi, 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 ethanol plant in the sugar season, which can be converted to 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 as 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 operations mitigate 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. The company has been procuring raw material (maize) and will be producing ethanol from maize/FCI in first half of current fiscal year to ensure better margins. However, considering 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 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 with consistent water supply 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).

**Liquidity**: Stretched
The company's liquidity is constrained by high upcoming debt repayments and lower than estimated crushing done by the company in the last two years, which has led to increased working capital borrowings. As against earlier levels of working capital utilisation of 50-60% utilisation, it has now increased to 70-80%. It is important for the company to generate envisaged profitability in FY26 to ensure the company maintains adequate debt service coverage ratio. The company had cash and bank balance of ₹18.93 crore as on March 31, 2025.

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar Sector
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 and 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, 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 to 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 as the company's managing directors, supported by an experienced management team.

| Brief Financials (₹ crore) | March 31, 2024 (A) | March 31, 2025 (Abridged) |
|---|---|---|
| Total operating income | 1,149.73 | 1,329.83 |
| PBILDT | 70.57 | 40.43 |
| PAT | 21.14 | -16.25 |
| Overall gearing (times) | 2.42 | 2.83 |
| Interest coverage (times) | 1.59 | 0.83 |

A: Audited; 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

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## 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 BB+; Negative |
| Fund-based - LT-Cash Credit | - | - | - | - | 466.00 | CARE BB+; Negative |
| Fund-based - LT-Term Loan | - | - | - | March 2028 | 234.00 | CARE BB+; Negative |

Company has not yet raised amount under Fixed deposit program.

## 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 2025-2026 | 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 |
| 1 | Fund-based - LT-Term Loan | LT | 234.00 | CARE BB+; Negative | - | 1)CARE BBB-; Stable (03-Jan-25) | 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 BB+; Negative | - | 1)CARE BBB-; Stable (03-Jan-25) | 1)CARE BBB-; Stable (17-Nov-23)<br><br>2)CARE BBB-; Positive (19-Jul-23) | - |
| 3 | Fixed Deposit | LT | 80.00 | CARE BB+; Negative | - | 1)CARE BBB-; Stable (03-Jan-25) | - | - |

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.

## Contact us

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