Avadh Sugar & Energy Limited

March 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	968.80 (enhanced from 895.50)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)**
Short-term Bank Facilities	39.80 (reduced from 54.80)	**CARE A2 (A Two)**	**Revised from CARE A2+ (A Two Plus)**
Total Bank Facilities	**1,008.60 (Rupees One Thousand Eight crore and Sixty lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Avadh Sugar & Energy Limited (ASEL) takes into account moderation in the financial performance of the company in FY18 (refers to the period from April 01 to March 31) and 9MFY19. Further, debt level has witnessed increase which is not in line with the debt reduction plan, as envisaged, resulting in deterioration in capital structure and debt protection metrics as against expected improvement in the same.

The ratings continue to draw strength from its experienced promoter and strong group, long track record of operations of the group (under Upper Ganges Sugar & Industries Limited (UGSIL) and The Oudh Sugar Mills Limited (OSML)), strategic location of the units, its integrated business model and increased thrust of government on ethanol production. The rating is, however, constrained by the inherent cyclical and seasonal nature of the sugar industry, exposure to vagaries of nature, working capital intensiveness, and regulated nature of the industry.

Improvement in the financial performance, effective management of working capital, improvement in capital structure and debt protection metrics shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

ASEL currently belongs to Ms. Nandini Nopany faction of the erstwhile KK Birla group of companies. The group is an established business house having interest in sugar, textiles and fertilizers. Sutlej Textiles and Industries Limited (rated CARE A+; Stable/CARE A1+) belonging to the promoters is among India's leading producers of dyed spun yarn and value added/speciality yarn. The combined sugar capacity of the group (49,200 TCD) is one of the largest in the Indian sugar industry.

The management of ASEL now vests with the Board of Directors comprising Mrs. Nandini Nopany, Mr. C. S. Nopany and seven non-executive directors having strong professional backgrounds from diverse fields.

Long track record of operation

The sugar units of ASEL have an operational track record of over eight decades which were earlier operating under UGSIL and OSML. After the scheme of arrangement, ASEL is currently operating four sugar mills with an aggregate crushing capacity of 31,200 TCD and co-generation power plants of 74 MW and distillery units of 200 KLPD.

Strategic location of the units

Multi-location facility with proximity to sugarcane growing areas of UP provides abundant and timely supply of sugarcane. This also facilitates expedient crushing of sugarcane which, in turn, ensures better recovery of sugar. Also, proximity of distilleries to the sugar mill reduces transportation costs for selling of molasses.

Integrated business model

ASEL sugar manufacturing units located in Uttar Pradesh are integrated with co-generation power plant. Further, the sugar units located in Hargaon and Seohara in UP are forward integrated with a distillery unit. Integrated business model provides alternate revenue stream and cushion against cyclicality of the sugar business, to some extent.

Increased thrust of government on ethanol

Government has approved funds worth Rs.2,790 crore towards interest subvention for extending indicative loan amount

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

of Rs.12,900 crore by banks to sugar mills to create additional capacity to produce ethanol under "Scheme for extending financial assistance to sugar mills for enhancement and augmentation of ethanol production capacity" in addition to Rs.1,332 crore already approved in June 2018. Currently, 4-5 per cent of ethanol is mixed with petrol as against a target of 10 per cent blending with biofuel. During 2017-18, the total ethanol supplies were 1.40 billion litres. However, as per ISMA, OMC's require 3.3 billion litres of ethanol for blending at 10%. The government is promoting ethanol which will help it to save on the import bill and also helps sugar mills to reduce their dependence on sugar enabling them to clear the cane arrears. To promote ethanol the government has provided interest subvention, increased the price of ethanol, fixed a separate price for B-heavy molasses based ethanol and ethanol from sugarcane juice etc. ASEL is positioned to benefit from this given its capex plan to increase its ethanol capacity by 20 KLPD from 200 KLPD to 220 KLPD which is expected to be completed by Mar-20. Further, the operational days of the distillery units shall increase from 240 days to 270 days thereby increasing the overall efficiency and scale of operation of the distillery. The capex for the increase in ethanol capacity shall be Rs.130 crore which shall be funded by a Term loan of Rs.95 crore (sanctioned) and internal accruals of Rs.35 crore.

Key Rating Weaknesses

Deterioration in financial performance in FY18 and 9MFY19

The total operating income of the company witnessed a growth of 29% in FY18 vis-a-vis FY17 on account of growth in revenue from the sugar segment which increased due to increased volume. However, there has been a decline in the PBILDT from Rs.433.49 crore in FY17 to Rs.273.26 crore in FY18 due to writing down of inventory to Net Realisable Value (NRV). The company valued its closing stock at NRV of Rs.27.5/Kg (being lower than the cost per Kg). Hence, it has booked a loss on inventory amounting to Rs.116.59 crore. The GCA of the company was Rs.132.63 crore in FY18 (Rs.249.26 crore in FY17) vis-à-vis a debt repayment obligation of Rs.108.85 crore in FY18. The interest coverage ratio of the company also deteriorated from 3.20x in FY17 to 2.41x in FY18.

In 9MFY19, the total operating income of the company witnessed a de-growth of 17% vis-à-vis 9MFY18. The de-growth was on account of reduced quantity of sugar sold along with significant reduction in average realisation of sugar in 9MFY19 vis-à-vis 9MFY18. The PBILDT witnessed a decline from Rs.282.39 crore in 9MFY18 to Rs.146.98 crore in 9MFY19 and PBILDT margin declined from 14.66% in 9MFY18 to 9.19% in 9MFY19. The PBILDT margin for 9MFY19 was supported by higher margins that the company earned from sale of ethanol (around 54% PBIT margin; though the total revenue from ethanol comprised of only 11% of the total revenue of ASEL). The decline in PBILDT led to decline in PAT from Rs.127.52 crore in 9MFY18 to Rs.34.65 crore in 9MFY19. Further, the company earned a GCA of Rs.67.45 crore in 9MFY19 (Rs.161.03 crore in 9MFY18) vis-à-vis debt repayment of Rs.45.59 crore in 9MFY19.

High overall gearing ratio and weak debt protection metrics

Till FY17, Rs.90 crore out of Rs.180 crore in the form of unsecured loans was considered as quasi equity which was subsequently repaid and the outstanding as on March 31, 2018 reduced to Rs.88.5 crore. The same further reduced to Rs.19.75 crore as on March 10, 2019. The reduction of quasi equity from net worth along with increase in debt levels led to deterioration in the overall gearing ratio from 3.16x as on March 31, 2017 to 3.46x as on March 31, 2018. However, the same improved to 2.33x as on December 31, 2018 with the repayment of its unsecured loans and short term loans leading to reduction in total debt. Going forward, the same is expected to deteriorate on account of new soft loan to be availed by the company amounting to Rs.118 crore to pay off cane dues and Rs.95 crore to set up distillery units. The TDGCA of the company has deteriorated from 5.11x as on March 31, 2017 to 10.20x as on March 31, 2018 on account of significant reduction in gross cash accruals.

Exposed to vagaries of nature

Being an agro-based industry, performance of ASEL is dependent on the availability of sugarcane for crushing which may get adversely affected due to adverse weather conditions resulting into lower availability and diversion of cultivable lands to alternate crops.

Working capital intensiveness

Since sugar is an agro-based commodity (with sugarcane crushed mainly during November to April), sugarcane has to be crushed within a day or two of its arrival in the mills. Hence, the sugar inventory is piled up during the crushing season and gradually released till the commencement of the next crushing season, resulting into high inventory carrying cost and requirement of higher working capital. The working capital cycle of the company improved from 187 days in FY17 to 147 days in FY18 on account of improvement in inventory days of the company from 255 days in FY17 to 182 days in FY18.

Cyclical and seasonal nature of the industry
The production of sugarcane and hence sugar is cyclical in nature wherein production of sugarcane is on an uptrend for two years and then declines over the next two years, before trending up again. It is a typical cycle which is affected by cane supply and sugar demand. The production of sugar is seasonal in nature as the sugarcane is crushed from November to April and may extend in case of surplus sugarcane production.

Regulated nature of the industry
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), Minimum Sale Price of Sugar, mandatory ethanol blending etc. All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

For the entire sugar year 2018-19, ISMA estimates sugar output to decline by 5.5% to 30.7 million tonnes from previous year's production of about 32.5 million tonnes. Considering these estimates India will have a closing stock of 12.4 million tonnes of sugar which is sufficient to fulfill the requirement of about 5-6 months of country's sugar consumption. This is much more than the normative requirement of 2 months stock that India keeps to avoid any disturbance in sugar supply.

The government in order to reduce surplus sugar in the country has been announcing several measures to divert sugarcane towards production of ethanol like allowing procurement of ethanol from B heavy molasses and sugarcane juice.

The cane arrears for sugarcane stood at around Rs.20,000 crore at the end of January 2019. In order to bring down the cane arrears, the government increased the sugar MSP from Rs.29/Kg to Rs.31/Kg on February 14, 2019 to ease the liquidity situation of sugar mills and enable them to repay their cane dues. Also, the government had announced a financial assistance of Rs.5.5 per quintal for sugar mills for the sugarcane crushed during the sugar year October 2017 to September 2018. Further, the Cabinet Committee on Economic Affairs (CCEA) has approved soft loans worth Rs.7,900-Rs.10,540 crore for the sugar industry to clear sugarcane dues of the current season 2018-19 and improve liquidity situation of the industry. The government shall bear the interest subvention cost at the rate of 7-10% to the extent of Rs.553 crore to Rs.1,054 crore for one year for the benefits of farmers. However, continuous Government support shall remain critical for the industry as with high inventory and expected strong production in SS2018-19, the sugar prices will remain under pressure.

Liquidity analysis
ASEL has a moderate liquidity profile with the estimated GCA for FY19 to be in line with FY18. The company had a cash and bank balance amounting to Rs.3.90 crore as on March 31, 2018. In the current year, the company has paid off its unsecured loans to the extent of Rs.68.75 crore and also redeemed its preference shares amounting to Rs.24.35 crore leading to moderation in position. This apart, ASEL has additional debt repayment obligation of Rs.70.8 crore for FY19 out of which Rs.45.59 crore has been paid till December 31, 2018. The balance shall be paid out of the cash accruals to be generated in Q4FY19. Going forward, the company has a debt repayment obligation of Rs.103 crore in FY20 for which the company anticipates sufficient cash accruals to meet the repayment. The current ratio and quick ratio of the company stood at 0.84x and 0.12x respectively as on March 31, 2018.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Rating Methodology – Manufacturing Companies

About the Company
ASEL was incorporated on March 19, 2015 with the purpose of transferring sugar units of Uttar Pradesh (UP) of OSML and UGSIL to a separate entity. UGSIL and OSML were incorporated in 1932 by the erstwhile KK Birla group. Ms. Nandini Nopany and Mr. Chandra Shekhar Nopany, eldest daughter and grandson of the late Mr. K. K. Birla, inherited UGSIL and OSML after the demise of Mr. K. K. Birla on August 30, 2008. Through a Composite Scheme of Arrangement, the business undertakings located at Seohara, UP of UGSIL and business undertakings located at Hargaon, Hata, and Rosa, UP of OSML

have been transferred to ASEL at their respective fair values on a going concern basis (appointed date April 1, 2015). ASEL is primarily engaged in manufacture and sale of Sugar and its By-products (molasses and bagasse), Spirits including Ethanol and Power generation in the state of UP.

ASEL is currently operating four sugar mills with an aggregate crushing capacity of 31,200 TCD and co-generation power plants of 74 MW and distillery units of 200 KLPD.

ASEL currently belongs to Ms. Nandini Nopany faction of the erstwhile KK Birla group of companies. The group is an established business house having interest in sugar, textiles and fertilizers. Other companies belonging to the group are Sutlej Textiles and Industries Limited and Chambal Fertilizers and Chemicals Limited (rated CRISIL AA; Stable/CRISIL A1+).

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	1866.75	2406.55
PBILDT	433.49	273.26
PAT	203.32	88.16
Overall gearing (times)	3.16	3.46
Interest coverage (times)	3.20	2.41

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

Rating History (Last three years): Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit				614.30	CARE BBB+; Stable
Fund-based - LT-Term Loan			March 2026	354.50	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit				4.80	CARE A2
Non-fund-based - ST-Bank Guarantees				35.00	CARE A2
Fund-based - ST-Working Capital Demand loan				0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	614.30	CARE BBB+; Stable	1)CARE A-; Stable (06-Apr-18)	1)CARE A-; Stable (03-Aug-17)	-	-
2.	Fund-based - LT-Term Loan	LT	354.50	CARE BBB+; Stable	1)CARE A-; Stable (06-Apr-18)	1)CARE A-; Stable (03-Aug-17)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	4.80	CARE A2	1)CARE A2+ (06-Apr-18)	1)CARE A2+ (03-Aug-17)	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	35.00	CARE A2	1)CARE A2+ (06-Apr-18)	1)CARE A2+ (03-Aug-17)	-	-
5.	Fund-based - ST-Working Capital Demand loan	ST	0.00	Withdrawn	1)CARE A2+ (06-Apr-18)	-	-	-

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CIN - L67190MH1993PLC071691