

Avadh Sugar & Energy Limited

April 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	895.5 (reduced from 1040.49)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	54.80 (enhanced from 39.80)	CARE A2+ (Single A Two Plus)	Reaffirmed
Total	950.30 (Rupees Nine Hundred Fifty crore and Thirty lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Avadh Sugar & Energy Limited (ASEL) draws strength from its experienced promoter and strong group, group capacity being one of the largest in the domestic sugar industry, long track record of operations of the group (under Oudh Sugar Mills Limited (OSML) and Upper Ganges Sugar & Industries Ltd (UGSIL)), strategic location of the units, its integrated business model, and improved financial performance in 9MFY18. The ratings are also supported by the management's strong debt reduction plan. The rating is, however, constrained by the inherent cyclical and seasonal nature of the sugar industry, high overall gearing ratio, exposure to vagaries of nature, working capital intensiveness, regulated nature of the industry and current pressure on sugar price trend due to higher domestic sugar production.

The changes in government policies relating to the sugar industry and improvement in capital structure through debt reduction are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong group & 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 AA/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 six 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 a distillery unit of 200 KLPD.

Strategic location of the units

Multi-location facility with proximity to sugarcane growing areas of Uttar Pradesh 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 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

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

provides alternate revenue stream and cushion against cyclical nature of the sugar business, to some extent.

Improvement in financial performance in 9MFY18

Financial risk profile of the company witnessed improvement in 9MFY18 compared to 9MFY17 due to healthy sugar prices and improvement in recovery rate of sugar from sugarcane. However, there has been a decline in the PBILDT margin in 9MFY18 compared to 9MFY17 since the opening stock which was valued at Rs.32.5/Kg as on March 31, 2017 was sold at an average rate of Rs.37/Kg during 9MFY18 giving a margin of Rs.4.5/Kg compared to opening stock valued at Rs.29/Kg as on March 31, 2016 being sold at an average rate of Rs.35/Kg giving a margin of Rs.6/Kg. ASEL reported PBILDT of Rs.282.59 crore on total operating income of Rs.1,926 crore in 9MFY18 vis-à-vis PBILDT of Rs.282.06 crore on total operating income of Rs.1,374 crore in 9MFY17. In 9MFY18, the company generated GCA of Rs.161 crore vis-à-vis debt repayment obligation of Rs.96 crore in FY18. The company has a comfortable PBILDT interest coverage ratio of 3.31x in 9MFY18. Going forward, the profitability is expected to witness moderation in view of recent declining sugar prices.

Key Rating Weaknesses

High overall gearing ratio albeit strong debt reduction plan going forward

The overall gearing ratio, though improved, remained high at and 2.98x as on March 31, 2017 vis-à-vis 4.46x as on March 31, 2016. The same is expected to further improve to around 1.8x levels as on the next account closing date and around 1.1x as on Mar.31, 2019, through debt reduction out of the expected healthy cash accruals, supported by absence of any major capex plan.

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.

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). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

Sugar prices tend to be under pressure going forward

The sugar production in the ongoing season (SS18) is projected at a record 29.5 mt (by ISMA) which is about 45% more than the production achieved last year. Till March 31, 2018, sugar mills have produced 28.2 mt, as compared to 18.9 mt last season. Due to an unexpected surplus sugar availability of around 45 lac tons of sugar over and above the required closing balance during the current 2017-18 season, domestic ex-mill prices have crashed once again and all India average ex-mill sugar price are hovering about Rs.30,000 per MT. The sugar balance as a result is expected to rise to level which has imparted pressure on sugar prices. However, the government has scrapped export duty of 20% and allotted a minimum export quota of 2 mt to support the sugar prices. While Maharashtra, UP and Karnataka contributed to the growth in production in the ongoing season, TN, AP and Telangana are witnessing lower sugar production.

Analytical Approach:Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Criteria for Wholesale Trading Companies](#)

About the Company

ASEL was incorporated on March 19, 2015 with the purpose of transferring sugar units of UP of OSML and UGSIL to a separate entity. Through a Composite Scheme of Arrangement, the business undertakings located at Seohara, Uttar Pradesh of UGSIL and business undertakings located at Hargaon, Hata, and Rosa, Uttar Pradesh of OSML have been transferred to ASEL. ASEL is primarily engaged in manufacture and sale of Sugar and its By-products (molasses and bagasse), Spirits including Ethanol and Power generation.

Brief Financials (Rs. Crore)	FY17 (A)	FY16 (A)
Total Operating Income	1867.72	1417.31
PBILDT	432.73	186.80
PAT	209.58	-152.06
Overall gearing (times)	2.98	4.46
Interest coverage (times)	3.33	1.50

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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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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	-	-	-	512.50	CARE A-; Stable
Fund-based - LT-Term Loan	-	-	March 2026	383.00	CARE A-; Stable
Fund-based - ST-Working Capital Demand loan	-	-	-	15.00	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	4.80	CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	35.00	CARE A2+

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	512.50	CARE A-; Stable	-	1)CARE A-; Stable (03-Aug-17)	-	-
2.	Fund-based - LT-Term Loan	LT	383.00	CARE A-; Stable	-	1)CARE A-; Stable (03-Aug-17)	-	-
3.	Non-fund-based - ST-Letter of credit	ST	4.80	CARE A2+	-	1)CARE A2+ (03-Aug-17)	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	35.00	CARE A2+	-	1)CARE A2+ (03-Aug-17)	-	-
5.	Fund-based - ST-Working Capital Demand loan	ST	15.00	CARE A2+	-	-	-	-

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