Avadh Sugar & Energy Limited

August 3, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	**1040.49**	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Assigned
Short-term Bank Facilities	**39.80**	**CARE A2+ (A Two)**	Assigned

^Part of the above mentioned bank facilities have been transferred from The Oudh Sugar Mills Limited (OSML) and Upper Ganges Sugar & Industries Limited (UGSIL) under the composite scheme of arrangement.
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, continued favourable sugar industry outlook backed by firm sugar prices, long track record of operations (under UGSIL and OSML), strategic location of the units, its integrated business model, and improved financial performance in FY17 (refers to the period April 1 to March 31). The ratings are also supported by the management's strong debt reduction plan out of the future cash generation supported by buoyant industry scenario. 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 and regulated nature of the industry.

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

Continued favourable sugar industry scenario backed by firm sugar prices

For SS 2016-17, the domestic availability of sugar is estimated at 28.5 mn MT. This includes opening stock of 7.7 mn MT, production of 20.3 mn MT and imports of 0.5 mn MT. The stock available with the country is sufficient to meet the expected consumption of about 24 mn MT during SS2016-17. India therefore is likely to have a closing stock of 4.5 mn MT of sugar for the SS 2016-17.

Hence, 4.5 mn MT of opening stock and likely production of 25.1 mn MT of sugar in SS 2017-18 (as per ISMA estimates) shall be sufficient to meet the estimated domestic consumption of around 24.6 mn MT.

CARE expects stable outlook for industry in medium-term on the back of supportive measures by the government (import duty recently increased to 50% from 40%), sustained healthy sugar prices, and lower stock level. This is likely to result in strong financial performance and profit margins of sugar players in FY18 as well.

Improvement in financial performance in FY17

Financial risk profile of the company witnessed significant improvement in FY17 due to sustained healthy sugar prices and improvement in recovery rate of sugar from sugarcane. ASEL reported PBILDT of Rs.432.73 crore on total operating income of Rs.1867.72 crore in FY17 vis-à-vis PBILDT of Rs.186.80 crore on total operating income of Rs.1417.31 crore in FY16. Both the PBILDT margin and PAT margin of the company improved and remained on a higher side at 23.17% and 11.22% respectively in FY17 (13.18% and -10.73% respectively in FY16) since the opening stock which was held with the company and was valued at around Rs.29 per kg has been sold at an average rate of Rs. 35 per kg during the year and improved recovery rate from 10.03% in FY15 to 11.24% in FY17 resulting in lower cost of production. In FY17, the company generated GCA of Rs.255.54 crore vis-à-vis debt repayment obligation of Rs.85.36 crore.

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.

Prospects

The firm sugar price supported by government's move to raise import duty on sugar and lower stock level in the industry is expected to result in healthy profits and accruals in near term. Moreover, the integrated business model and strong group profile also supports the long-term prospects of the company. Improvement in capital structure through debt reduction, in the absence of any major expansion plan shall be crucial from credit perspective.

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
CARE's methodology for manufacturing companies
Rating Methodology: Factoring Linkages in Ratings

About the Company

Avadh Sugar & Energy Limited (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 at their respective fair values on a going concern basis from the appointed date, i.e. 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.

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.*

Analyst Contact
Name: Ms. Richa Bagaria
Tel: 033-4018 1653
Cell: +91 99034 70650
Email: richa.jain@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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-Term Loan	-	-	March 2026	527.99	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	512.50	CARE A-; Stable
Non-Fund –based – ST-BG/LC	-	-	-	39.80	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-Term Loan	LT	527.99	CARE A-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	512.50	CARE A-; Stable	-	-	-	-
3.	Non-Fund –based – ST-BG/LC	ST	39.80	CARE A2+	-	-	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691