

## Bannari Amman Sugars Limited

January 03, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	564.50 (enhanced from 514.00)	<b>CARE A+; Stable (Single A Plus; Outlook: Stable)</b>	Reaffirmed
Short-term Bank Facilities	310.00 (enhanced from 307.50)	<b>CARE A1+ (A One Plus)</b>	Reaffirmed
Long-term /Short-term Bank Facilities	15.40	<b>CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>889.90</b> <b>(Rs. Eight hundred and eighty nine crore and ninety lakh only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings continue to factor in the well-established and long track record of operations of Bannari Amman Sugars Limited (BASL) in the sugar industry, integrated nature of its sugar business with income from power generation & distilleries including income derived from granite business, comfortable operating profit margins and comfortable capital structure. The ratings also take note of stable financial performance during FY19 (refers to the period April 01 to March 31).

The ratings continue to be constrained by the inherent cyclicity of sugar business, susceptibility to agro climatic conditions and high level of regulations in the industry.

### Rating Sensitivities

#### Positive Factors

- Increase in revenue and profitability on sustained basis
- Continuous decline in debt levels resulting in improved capital structure

#### Negative Factors

- Prolonged down trend in the sugar industry impacting revenue and profitability

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Established and long operational track record in the sugar industry

BASL is the flagship company of the group and boasts of a successful operational track record of over 30 years in the sugar industry. BASL started production with a single sugar unit in Tamil Nadu with an installed capacity of 1, 250 Tonnes Cane per day (TCD). The capacity was increased in phases through expansion in the existing units and also by addition of new units. Presently, the company has two units located in Karnataka (Mysore and Chamarajanagar district) and three units in Tamil Nadu (Erode, Thiruvannamalai and Villupuram district).

##### Integrated nature of operations

BASL is engaged in the manufacture of sugar, industrial alcohol, bio-compost and generation of power through sugar co-gen and windmills. As on September 2019, BASL has aggregate capacity of 23,700 TCD spread across five units (two in Karnataka & three in Tamil Nadu), two distilleries with a combined capacity of 127.5 KLPD and 129.8 MW of co-generation capacity with six power plants.

BASL has co-generation and distillery plants in Sugar Unit I (20 MW co-generation plant and 67.5 KLPD distillery plant), Sugar Unit - II (36 MW co-generation and 60 KLPD distillery plant), Sugar Unit- III (20 MW co-generation), Sugar Unit IV (28.80 MW co-generation) and sugar unit V (25 MW co-generation) which helps de-risk its business model. This apart, BASL also has installed windmill capacity of 8.75 MW as on September 30, 2019. Also adjacent to Sugar unit – I, the company has a granite unit which is 100% EOU processing polished granite slabs and tiles. During FY19, sugar division accounted for 63% of the total income and rest of the income generated from power (13%), granite (5%) and Distillery (10%) and Molasses (5%).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Relatively stable financial performance; though income declined significantly in FY19 on account of introduction of monthly release mechanism decline in PAT was relatively low**

During FY19, BASL registered PAT of Rs.76 cr and GCA of Rs.147 cr on TOI of Rs.1,131 cr as against PAT of Rs.87 cr and GCA of Rs.182 cr on TOI of Rs.1,538 cr in FY18.

Moderation in TOI in FY19 is mainly due to lower sugar sales volume at 22.6 lakh Quintal (PY:31.9 lakh quintal) and lower realization (Rs.31.21/kg) during the period. Introduction of regulated release mechanism in June 2018 in order to stabilize sugar prices resulted in lower sugar sales volume in FY19. However, with favourable climatic conditions the quantum of cane crushing increased in Tamilnadu and Karnataka during FY19 which resulted in higher sales from by-products (Molasses, Alcohol and Power) during the period. Total cane crushed increased from 23.7 lakh Tonne in FY18 to 37.3 lakh Tonne in FY19. With increase in sales from by-products, the PBILDT margin increased to 16.58% in FY19 as against 14.05% in FY18.

During H1FY20, the company registered PAT of Rs.28 cr (PY: Rs. 34 cr) and GCA of Rs.62 cr (PY Rs.67 cr) on total operating income of Rs.701 cr (PY Rs.485 cr).

Sales from sugar division increased by 74% on y-o-y basis in H1FY20 as against the previous year on account of increase in sugar sales volume by 66% supported by higher crushing in FY19. During H1FY20, BASL exported sugar to the extent of 4.9 lakh quintal (PY: Nil) which contributed to increase in sugar sales volume in H1FY20. Total cane crushed remained at 13.0 lakh ton in H1FY20 as against 12.4 lakh ton in H1FY19. The PBILDT margin moderated in H1FY20 at 13.53% as against the previous on account of lower recovery at 8.61% (PY: 9.00%) and increase in cane cost.

**Comfortable capital structure**

BASL has prepaid substantial amount of debt in FY18 supported by healthy accruals and reduction in inventory levels and consequent fall in working capital requirements. Debt equity ratio remained comfortable at 0.23 times as on March 31, 2019 as against 0.29 times as on March 31, 2018. The working capital borrowings increased as on March 31, 2019 as against the previous year mainly on account of introduction of regulated release mechanism in June 2018 and maintenance of buffer stock by sugar mills as mandated by the government. BASL's inventory increased from Rs.535 cr as on March 31, 2018 to Rs.934 cr as on March 31, 2019 resulting increase in working capital borrowings. Overall gearing however remained comfortable at 0.64 times as on March 31, 2019 and 0.68 times as on September 30, 2019. BASL's working capital utilization levels also remained moderate for the twelve months ended November 2019 at 78%.

**Key Rating Weaknesses****Susceptibility of the revenues and profitability to the demand-supply dynamics with cyclical and regulated nature of sugar industry**

Sugar industry is highly regulated industry. Cyclical nature of sugar industry and volatility in prices results in significant impact on operating performance of sugar companies. These apart operations are susceptible to cane availability which is a challenge due to adverse climatic conditions.

**Industry outlook**

Sugar production for the sugar year October 2018-September 2019 grew by around 2% with a high closing stock of around 14.6 mn MT at the end of SS 2018-19. The closing stock is higher than the normative requirement which has kept sugar prices under pressure. The domestic average sugar prices moderated during SS 18-19 due to excess sugar inventories in the country. However the government hiked the MSP of sugar to Rs.31 per kg in Q4FY19 to support the prices. In addition to this, lower estimates of sugar production for SS 19-20 also supported the prices.

Going forward sugar production is estimated to be lower during the sugar season 2019-20. Government has also increased procurement prices for ethanol to divert sugarcane towards production of ethanol which will further lower sugar production. Overall, measures taken by the government including MSP for sugar, ethanol-blending and export incentive bodes well for the industry.

**Liquidity : Adequate**

The average working capital utilization was 78% for the twelve month period ended November 2019. The company makes payment to farmers within 14 days and sells to sugar customers mainly on cash and carry basis. The total cash balance as on September 30, 2019 Rs.4 crore. With substantial term debt repayment completed in the earlier years the debt repayment is relatively low (Rs.31 crore in FY20) in the near future against GCA of Rs.147 crore in FY19 and Rs.62 crore in H1FY20.

**Analytical approach:** Standalone

**Applicable Criteria**

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios - Non-Financial Sector](#)  
[Rating Methodology - Sugar Sector](#)

**About the Company**

BASL is the flagship company of the Coimbatore-based Bannari Amman group, one of the largest industrial conglomerates in South India and is engaged in the manufacture of sugar, industrial/potable alcohol, bio-compost, granite products and generation of power.

BASL has five sugar units spread across Tamil Nadu (3) and Karnataka (2) with a total installed capacity of 23,700 tonnes crushed per day (TCD) as on September 30, 2019. BASL also has two distilleries with a combined capacity of 127.5 kilo litres per day (KLPD) and 129.8 Megawatt (MW) of co-generation capacity with six power plants and a granite division. Besides, BASL also has installed windmill capacity of 8.75 MW as on September 30, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	1,538	1,131
PBILDT	216	187
PAT	87	76
Overall gearing (times)	0.45	0.64
Interest coverage (times)	6.39	6.33

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - ST-EPC/PSC	-	-	-	-	5.00	CARE A1+
Non-fund-based - LT/ST-Letter of credit	-	-	-	-	5.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	-	445.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	-	December 2025	119.50	CARE A+; Stable
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	-	10.40	CARE A+; Stable / CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	-	305.00	CARE A1+

## 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - ST-EPC/PSC	ST	5.00	CARE A1+	-	1)CARE A1+ (19-Dec-18) 2)CARE A1+ (04-Jun-18)	1)CARE A1+ (03-Jan-18)	1)CARE A1+ (13-Jan-17) 2)CARE A1+ (Under Credit Watch) (25-Apr-16)
2.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	5.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (19-Dec-18) 2)CARE A+; Stable / CARE A1+ (04-Jun-18)	1)CARE A+; Positive / CARE A1+ (03-Jan-18)	1)CARE A+; Stable / CARE A1+ (13-Jan-17) 2)CARE A+ / CARE A1+ (Under Credit Watch) (25-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	445.00	CARE A+; Stable	-	1)CARE A+; Stable (19-Dec-18) 2)CARE A+; Stable (04-Jun-18)	1)CARE A+; Positive (03-Jan-18)	1)CARE A+; Stable (13-Jan-17) 2)CARE A+ (Under Credit Watch) (25-Apr-16)
4.	Fund-based - LT-Term Loan	LT	119.50	CARE A+; Stable	-	1)CARE A+; Stable (19-Dec-18) 2)CARE A+; Stable (04-Jun-18)	1)CARE A+; Positive (03-Jan-18)	1)CARE A+; Stable (13-Jan-17) 2)CARE A+ (Under Credit Watch) (25-Apr-16)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.40	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (19-Dec-18) 2)CARE A+; Stable / CARE A1+ (04-Jun-18)	1)CARE A+; Positive / CARE A1+ (03-Jan-18)	1)CARE A+; Stable / CARE A1+ (13-Jan-17) 2)CARE A+ / CARE A1+ (Under Credit Watch) (25-Apr-16)
6.	Fund-based - ST-Working Capital Limits	ST	305.00	CARE A1+	-	1)CARE A1+ (19-Dec-18)	-	-

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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