Bannari Amman Sugars Limited
December 07, 2020

Ratings

Instrument / Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long Term Bank Facilities	838.50 (Enhanced from 564.50)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	15.40	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Reaffirmed
Short Term Bank Facilities	10.00 (Reduced from 310.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	**863.90 (Rs. Eight Hundred Sixty-Three Crore and Ninety Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bannari Amman Sugars Limited (BASL) continue to factor in the well-established and long track record of the company in the sugar industry, integrated nature of operations with income from distilleries and power including income derived from the granite business. The ratings also factor in the geographically diversified presence of manufacturing units to an extent, comfortable operating profit margin and comfortable capital structure. The ratings also take note of the improvement in profits in FY20 (refers to the period April 01 to March 31) and H1FY21 driven by higher crushing and consequent increase in sugar sales volumes. The ratings, however, continue to be constrained by the lower sugarcane recovery rates, susceptibility of the revenues and profitability to the demand-supply dynamics, susceptibility to agro-climatic conditions, cyclical and highly regulated nature of the industry.

Rating Sensitivities

Positive Factors: Factors that could, individually or collectively, lead to positive rating action/upgrade

- Increase in revenues and profitability supported by improvement in recovery rates on sustained basis
- Improvement in Return on Capital Employed (ROCE) to 12%

Negative Factors: Factors that could, individually or collectively, lead to negative rating action/upgrade

- Increase in overall gearing above 1.5 times on sustained basis along with increase in term debt to GCA of above 4 times
- Prolonged down trend in the sugar industry impacting revenue and profitability leading to PBILDT margin less than 10% on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Established track record in 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 to the current level of 23,700 TCD. Presently, the company has two units located in Karnataka (Mysore and Chamarajanagar district) and three units in Tamil Nadu (Erode, Thiruvannamalai and Kallakurichi district).

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

Integrated nature of operations; units present in Tamil Nadu and Karnataka providing geographical diversification to an extent

BASL is engaged in the manufacture of sugar, industrial alcohol, bio-compost, granite products and generation and sale of power through sugar co-gen and windmills. As on September 2020, 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. The company is also in the process of enhancing its distillery capacity in Mysore unit from 60 KLPD to 150 KLPD. The company also has 7 wind mills having capacity of 1,250 kW each aggregating 8.75 MW, in the southern part of Tamil Nadu. Also adjacent to Sugar unit – I, the company has a granite unit which is 100% EOU, processing polished granite slabs and tiles.

Improvement in revenue and profits in FY20 and H1FY21 supported by higher sugar sales volume

During FY20, BASL's revenues improved sharply (+39%) driven by growth in sugar revenues (+63%) which was primarily driven by increased cane availability and crushing. During FY20, sugar sales volume stood at 38.3 lakh quintals against 22.6 lakh qunitals in FY19. Overall crushing improved (7%) in FY20 driven by better cane availability at Karnataka based units. With increase in crushing, sales volume of molasses has improved while alcohol volume declined as sale of molasses was profitable during this period. Power sales volume remained almost flat and majority of the sales was to various state discoms. During FY20, BASL registered PAT of Rs.96 crore and GCA of Rs.169 crore on TOI of Rs.1,613 crore as against PAT of Rs.76 crore and GCA of Rs.140 crore on TOI of Rs.1,131 crore in FY19. Improvement in profits was largely due to increase in sugar sales volume and better absorption of fixed costs.

Performance of the company continued to improve in H1FY21 with the company reporting marginally better revenues (+5%) compared to H1FY20. The growth was largely driven by increased revenues in its core sugar business (driven by both sales volume and value). Supported by improvement in realization across products PBILDT margin improved marginally by 50 bps in H1FY21 on y-o-y basis.

Capital structure continues to be comfortable; low dependence on long-term borrowings

BASL's capital structure continues to remain comfortable with overall gearing of 0.78 times as on March 31, 2020 (PY:0.64 times). Debt equity ratio remained comfortable at 0.21 times as on March 31, 2020 as against 0.23 times as on March 31, 2019. Working capital borrowings increased as on March 31, 2020 as against the previous year on account of combination of increase in receivables and reduction in payables. BASL's inventory increased from Rs.535 crore as on March 31, 2018 to Rs.960 crore as on March 31, 2020 on account of introduction of monthly release mechanism in June 2018 and maintenance of buffer stock resulting in increase in working capital borrowings. Capitalization and coverage indicators continued to remain at comfortable levels during H1FY21 with BASL's debt equity ratio and overall gearing at 0.62 times and 0.19 times as on September 30, 2020.

Moderate capital expenditure plans going forward

BASL is in the process of incurring capex of Rs.150 crore spread across FY20 and FY21 for the purpose of (1) expanding its distillery capacity in Karnataka from 60 KLPD to 150 KLPD and (2) addition of capability to manufacture Ethanol from B-Heavy Molasses and Sugarcane Juice. The same is being funded by term debt of Rs.75 crore (sanctioned), Sugar development loan of Rs.46 crore (sanctioned) and remaining through internal accruals. BASL has completed capex of around Rs.100 crore in FY20 and a further Rs.25 crore during YTD FY21 (till October 31, 2020) on the same. The remaining amount is expected to be incurred before March 2021. This apart, BASL plans to modernize its distillery in Tamil Nadu for a total expenditure of Rs.40 crore beginning December 2020. The same is expected to be completed by end of Q1FY22 and aid the company in increasing the alcohol yield. However, compared to the net worth of the company (Rs.1,313 crore as on September 30, 2020) the capital expenditure outlay is relatively small.

Key Rating Weaknesses

Continuation of low sugarcane recovery trends for southern states

The varietal change of sugarcane helped improve recovery rates for sugar mills operating in the northern states of India. However, the same varieties did not yield similar results in the southern states resulting in lower recovery rates for BASL. While recovery rates for BASL has been in the range of 9.0-9.7% for the past five years ended March 31, 2020, sugar mills in the northern states, especially Uttar Pradesh have been able to report recovery rates in the range of 12%. Higher recovery rates lead to reduction in cost of production of sugar thus supporting margins.

Susceptibility of the revenues and profitability to the demand-supply dynamics along 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. India also continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government.

Industry Outlook
For SS 2020-21, India's sugar output is expected to increase by 17.7% y-o-y to 32 million tonnes as per the preliminary estimates released by ISMA. This is likely to aggravate the already surplus sugar supply situation in India. The estimate does not include diversion of cane juice and B-molasses towards ethanol which is expected to result in 1.5 million tonnes of less sugar production in sugar year 2020-21. The average domestic sugar prices remained almost stable and were in the range of Rs.33 per kg – Rs.34 per kg during the period October 2019-March 2020 backed by lower sugar output and higher exports for the SS 2019-20. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also aided the stability in prices. During lockdown, sugar prices had declined by 0.3% in April 2020 and by another 0.9% in May 2020 on sequential basis as per WPI. Subdued demand from bulk consumers like restaurants, eateries, food services etc. due to imposition of lockdown on account of Covid-19 is believed to have impacted sugar prices during these two months. In July 2020 sugar prices improved by 4.7% m-o-m to Rs.33.9 per kg. The prices had also increased 1.6% sequentially in June 2020 as per Wholesale Price Index (WPI). Some recovery in demand from bulk consumers such as restaurants which were allowed to operate (though with various restrictions) is believed to have resulted in the improvement in prices. Sugar prices in June 2020 (at Rs.32.3 per kg) however were 4% lower compared to the average sugar prices of Rs.33.7 per kg in the first 6 months of SS 2019-20 (prior to lockdown). The Cabinet Committee on Economic Affairs (CCEA) announced FRP for sugarcane at Rs.285 per quintal for the sugar season (SS) 2020-21 for a basic recovery rate of 10%. This is 3.6% higher than the FRP of Rs.275 per quintal during 2019-20 when it was kept unchanged. The higher cost of sugar production is likely to affect the sugar mills given the current scenario of sugar industry where surplus sugar supply is already restricting any major growth in sugar prices.

Prospects
Financial performance of BASL witnessed improvement in FY20 driven by better sugar sales volumes. Further, integrated nature of operations continued to aid overall profitability of the company, though there was a marginal drop in PBILDT due to lower sugar recovery rates and higher cane cost in FY20. Performance during H1FY21 continued to remain better, while capitalization and coverage indicators remained comfortable. Going forward, cyclicality associated with the industry, challenges with respect to cane availability in the regions where BASL's plants are located and trends in sugar realizations are expected to have a major bearing on the operational and financial performance of the company. The modernization/upgrading and capacity expansion activity undertaken by the company in the distillery division is expected to support margins and lower dependence on Sugar sales. Any major debt funded capex would be credit monitorable.

Liquidity: Adequate
The liquidity profile of the company remains adequate with stable cash accruals. The company makes payment to farmers within 14 days and sells to sugar customers mainly on cash and carry basis. The average working capital utilization was 87% for the twelve-month period ended September 2020. Scheduled term debt obligation for FY21 is Rs.24.8 crore against Gross Cash Accruals of Rs.74 crore reported in H1FY21.

Analytical approach: Standalone

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 and sale 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, 2020. 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, 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1,131	1,613
PBILDT	188	235
PAT	76	96
Overall gearing (times)	0.64	0.78
Interest coverage (times)	6.35	5.30

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	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	-	-	-	745.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	December 2025	93.50	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.40	CARE A+; Stable / CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	5.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - ST-EPC/PSC	ST	5.00	CARE A1+	-	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (19-Dec-18) 2)CARE A1+	1)CARE A1+ (03-Jan-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
							(04-Jun-18)	
2.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	5.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (03-Jan-20)	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)
3.	Fund-based - LT-Cash Credit	LT	745.00	CARE A+; Stable	-	1)CARE A+; Stable (03-Jan-20)	1)CARE A+; Stable (19-Dec-18) 2)CARE A+; Stable (04-Jun-18)	1)CARE A+; Positive (03-Jan-18)
4.	Fund-based - LT-Term Loan	LT	93.50	CARE A+; Stable	-	1)CARE A+; Stable (03-Jan-20)	1)CARE A+; Stable (19-Dec-18) 2)CARE A+; Stable (04-Jun-18)	1)CARE A+; Positive (03-Jan-18)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.40	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (03-Jan-20)	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)
6.	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A1+	-	1)CARE A1+ (03-Jan-20)	1)CARE A1+ (19-Dec-18)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - ST-EPC/PSC	Simple
4.	Fund-based - ST-Working Capital Limits	Simple
5.	Non-fund-based - LT/ ST-Bank Guarantees	Simple
6.	Non-fund-based - LT/ ST-Letter of credit	Simple

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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