

Bannari Amman Sugars Limited

December 19, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	514.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	307.50 (enhanced from 7.50)	CARE A1+ (A One Plus)	Reaffirmed
Long-term /Short-term Bank Facilities	15.40	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)	Reaffirmed
Total Facilities	836.90 (Rupees Eight Hundred and Thirty Six crore and Ninety lakh only)		

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 and comfortable operating profit margins. The ratings also take note of stable financial performance during FY18 (refers to the period April 01 to March 31) with improvement in capital structure.

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. In view of cyclicity associated with the industry and challenges with respect to sugar prices, the ability of BASL to improve its profitability and any prolonged down trend in the sugar industry would be the key rating sensitivity.

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. 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/potable alcohol, bio-compost, granite products and generation of power through sugar co-gen and windmills. As on September 2018, 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, 2018. Also adjacent to Sugar unit – I, the company has a granite unit which is 100% EOU processing quality polished granite products. During FY18, sugar business accounted for 83% of the total income and rest of the income generated from power (6%), granite (5%) and Distillery (6%).

Stable financial performance during FY18

During FY18, BASL registered PAT of Rs.85 crore and GCA of Rs.182 crore on TOI of Rs.1,538 crore as against PAT of Rs.145 crore and GCA of Rs.256 crore on TOI of Rs.1,785 crore in FY17. Lower crushing due to lower cane availability in Tamilnadu during SS17 (October 2016 to September 2017) and SS18 along with decline in sugar sales realisation from Q4FY18 onwards resulted in moderation in sales volume of sugar and subsequent moderation in income from sugar by 22% in FY18.

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

With lower cane crushing, both income from distillery and power business also declined. This coupled with increase in cost of cane in FY18 has resulted in moderation of profitability in FY18. The average sales realisation during FY17 was Rs.33.98/kg with peak realization of Rs.37.30/kg in March 2017. With the increasing trend in 9MFY18 the average realization was Rs.37.20/kg during the period which declined to Rs.33.10/kg in Q4FY18. The realisation subsequently started improving from June 2018 onwards.

On account of drop in cane availability mainly in the state of Tamilnadu due to adverse climatic conditions, cane crushed declined in FY18. However, cane availability has improved in H1FY19 with total cane crushing of 12.40 lakh Tons during the period as against 8.85 lakh Ton in H1FY18.

During H1FY19, the company registered PAT of Rs.34 crore (PY: Rs. 51 crore) and GCA of Rs.67 crore (PY Rs.85 crore) on total operating income of Rs.485 crore (PY Rs.842 crore). The performance in H1FY19 was moderate as compared to same period previous year on account of lower sales volume and realization. The lower sales volume during the period was low due to the monthly release mechanism introduced since June 2018 in order to stabilize/maintain the sugar prices.

Significant improvement in capital structure supported by healthy accruals and prepayment of term loans

BASL has repaid notable portion of term debt in FY18. This was supported by healthy accruals and reduction in inventory levels and consequent fall in working capital requirements. Debt equity ratio improved from 0.59 times as on March 31, 2017 to 0.29 times as on March 31, 2018. BASL's inventory declined from Rs.939 crore as on March 31, 2017 to Rs.535 crore as on March 31, 2018. Overall gearing improved in the last two years ended March 31, 2018 to 0.47 times. The overall gearing stood at 0.48x as on September 30, 2018.

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. This apart operations are susceptible to cane availability which is a challenge due to adverse climatic conditions.

Industry outlook

Sugar production in India declined in each of the sugar seasons (October –September) 15-16 and Sugar Season (SS) 16-17 due to lower availability of sugarcane. Lower sugar production had resulted in increase in average domestic sugar price in SS 16-17. Sugar prices remained high during April 2017 to November 2017. Subsequently the prices started declining from December 2017 onwards, primarily on account of higher sugar production in SS17-18. Higher sugar production along with opening stock at the beginning of the SS 17-18 and no major increase in consumption levels resulted in higher closing stock for SS17-18. The prices improved during Q2FY19 onwards with various steps taken by the government to support the industry.

In order to reduce the burden on the mills and the farmers the government has recommended production incentive to bring down the cane dues. Also increasing import duty, withdrawing export duty on exports of sugar, imposing export quota on mills, introducing release mechanism, encouraging ethanol production for blending program, implementation of minimum support price (MSP) on sugar are few steps taken by the government to stabilize the sugar prices and aid the industry.

Liquidity position

The total cash & bank balance stood at Rs.5 crore as on March 31, 2018 and as on September 30, 2018. In FY18, BASL's average payable period stood at 21 days, its average collection period stood at 22 days and average inventory days stood at 204 days. In the past 12 months period ended November 2018, average working capital utilization was 48%.

Analytical approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

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

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, 2018. 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, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1,785	1,538
PBILDT	353	216
PAT	145	87
Overall gearing (times)	0.97	0.47
Interest coverage (times)	3.64	6.39

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for 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 - ST-EPC/PSC	-	-	-	7.50	CARE A1+
Non-fund-based - LT/ ST-Letter of credit	-	-	-	5.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	450.00	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	March 2021	64.00	CARE A+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	10.40	CARE A+; Stable / CARE A1+
Fund-based - ST-Working Capital Limits	-	-	-	300.00	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 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 - ST-EPC/PSC	ST	7.50	CARE A1+	1)CARE A1+ (04-June-2018)	1)CARE A1+ (03-January-2018)	1)CARE A1+ (13-January-2017) 2)CARE A1+ (Under Credit Watch) (25-April-2016)	1)CARE A1+ (29-January-2016)
2.	Non-fund-based - LT/ ST-Letter of credit	LT/ST	5.00	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (04-June-2018)	1)CARE A+; Positive / CARE A1+ (03-January-2018)	1)CARE A+; Stable / CARE A1+ (13-January-2017) 2)CARE A+ / CARE A1+ (Under Credit Watch) (25-April-2016)	1)CARE A+ / CARE A1+ (29-January-2016)
3.	Fund-based - LT-Cash Credit	LT	450.00	CARE A+; Stable	1)CARE A+; Stable (04-June-2018)	1)CARE A+; Positive (03-January-2018)	1)CARE A+; Stable (13-January-2017) 2)CARE A+ (Under Credit	1)CARE A+ (29-January-2016)

							Watch) (25-April-2016)	
4.	Fund-based - LT-Term Loan	LT	64.00	CARE A+; Stable	1)CARE A+; Stable (04-June-2018)	1)CARE A+; Positive (03-Jan-18)	1)CARE A+; Stable (13-January-2017) 2)CARE A+ (Under Credit Watch) (25-April-2016)	1)CARE A+ (29-January-2016)
5.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	10.40	CARE A+; Stable / CARE A1+	1)CARE A+; Stable / CARE A1+ (04-June-2018)	1)CARE A+; Positive / CARE A1+ (03-January-2018)	1)CARE A+; Stable / CARE A1+ (13-January-2017) 2)CARE A+ / CARE A1+ (Under Credit Watch) (25-April-2016)	1)CARE A+ / CARE A1+ (29-January-2016)
6.	Fund-based - ST-Working Capital Limits	ST	300.00	CARE A1+	-	-	-	-

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