Coromandel Sugars Limited

February 20, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long-term Bank Facilities	100	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Reaffirmed**
Long-term/ Short-term Bank Facilities	47	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/ A Three)**	**Reaffirmed**
Total Facilities	**147 (Rs. One hundred forty-seven crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Coromandel Sugars Limited (CSL) continue to derive strength from demonstrated support from its group companies, moderately diversified revenue stream on account of partially integrated nature of its operations and relatively longer crushing period. The ratings also factor in extension of corporate guarantee by India Cements Ltd (ICL) for term loan availed by CSL during FY19 (refers to the period April 1 to March 31).

The ratings are, however, constrained by high gearing levels, relatively low cash accruals and susceptibility of revenue and profitability to cyclical and regulated nature of sugar industry.

Rating Sensitivities

Positive Factors

- Ability of the company to improve its capital structure marked by improvement in overall gearing and debt coverage indicators on a sustained basis.

Negative Factors

- Significant deterioration in operating margin on a sustained basis.
- Sharp deterioration in the credit profile of the promoter group company, The India Cements Ltd.

Detailed description of the key rating drivers

Key Rating Strengths

Demonstrated support from the group

CSL is part of the India Cements group and India Cements Limited (ICL, rated 'CARE A; Stable/ CARE A1') owns 49.9% stake in CSL through its wholly-owned subsidiary, Coromandel Electric Company Limited (CECL). ICL has extended corporate guarantee to term loan facilities of CSL aggregating Rs.165 crore during FY19. ICL has also extended financial support to CSL in the form of unsecured loans in the past whenever required. As on December 31, 2019, total support extended by ICL stood at Rs.103.6 crore, of which Rs.35.5 crore is in the form of investments through 0% unsecured convertible debentures and Rs.68.1 crore in the form of unsecured loans (including interest accrual of Rs.9.6 crore). This apart, CSL has also received support from another promoter group entity CECL. As on December 31, 2019, total unsecured loans from CECL stood at Rs.72.8 crore (including interest accrual of Rs.17.8 crore). CARE expects the need-based support to CSL from the India Cements group to continue in the future as well.

Relatively longer crushing period

The command area of CSL has two major rivers, Cauvery and Hemavathy, and it is fed by canals & tube-wells. Generally, on account of better cane availability, the crushing period of CSL is longer. Cane crushing for FY19, commenced in July 2018 and continued up to March 2019, for about 222 days. During FY19, CSL witnessed higher cane crushing at 7.22 lakh MT of sugarcane as against 5.68 lakh MT in FY18, driven by increased sugarcane availability in south Karnataka on account of better climatic conditions during the period. The sugar recovery rate also improved to 9.76% in FY19 against 9.35% in FY18.

Partially diversified revenue stream

CSL has a partially diversified revenue stream, aided by additional income earned from the sale of molasses and generation of power from the co-gen plant. During FY19, CSL generated around 76% of the total income from sale of sugar (PY: 80%), 11% from sale of molasses (PY: 11%), 8% from sale of power (PY: 6%) and remaining from other income (interest and

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

dividend income). Current level of diversification provides partial de-risking of the core sugar business from the inherent cyclicality and volatile sugar prices.

Key Rating Weaknesses

Relatively stable performance in FY19

During FY19, CSL's total income decreased 3.9% y-o-y to Rs.186 crore from Rs.193 crore in FY18, due to decline in sugar sales realization which was partially offset by increase in power sales. For FY19, the PBILDT margin improved to 23.20% (PY: 18.20%) on account of increased power sales and higher cane crushing during the period leading to better absorption of fixed overheads. Also, power & fuel expenses declined by Rs.5 crore to Rs.1 crore in FY19 (PY: Rs.6 crore), on account of negligible usage of coal for the co-gen plant with improvement in availability of bagasse. However, profit after tax was impacted due to higher finance costs offset by deferred tax asset in FY19. For FY19, CSL reported net profit of Rs.1.6 crore against net loss of Rs.5.6 crore in FY18, and GCA of Rs.2.8 crore (PY: Rs.2.1 crore).
During FY19, total sugar production increased 33% y-o-y, however, total sugar sales during FY19 increased only by 7% y-o-y due to introduction of monthly release mechanism by the Government from June 2018 onwards. Also, average sale realization of sugar declined 15% y-o-y during FY19 on account of over-supply of sugar in the market.

High leverage levels

Overall gearing stood at 4.19x as on March 31, 2019, as against 3.05x as on March 31, 2018, as term loans and working capital borrowings increased during FY19. During FY19, CSL availed new term loan of Rs.165 crore with longer tenor to replace the existing term debt (Rs.130 crore), thereby reducing its repayment obligations in the near-term. It is to be noted that the company is yet to draw Rs.25 crore out of the total sanction of Rs.165 crore as on date. During FY19, the company availed soft loans amounting Rs.33 crore apart from Rs.5 crore support from CECL to augment its liquidity. Working capital borrowings increased as on March 31, 2019, as against the previous year mainly on account of introduction of regulated release mechanism from June 2018 onwards resulting in higher inventory levels. Interest coverage indicator remained moderate at 1.04 for FY19. Excluding loans availed from the promoter group entities, overall gearing stood at 2.73x as on March 31, 2019 (PY: 1.78x).

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

Sugar industry is a 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 season 2018-19 (October 2018-September 2019) stood at about 33.16 million tonnes with y-o-y growth of 2%. The closing stock of sugar stood at around 14.6 million MT at the end of SS2018-19, much higher than the normative requirement which kept sugar prices under pressure. The domestic average sugar prices moderated during SS2018-19 due to excess sugar inventories prevailing in the country. To aid sugar industry, the government hiked the Minimum Support Price (MSP) to Rs.31 per kg in February 2019 from Rs.29 per kg, which supported the price rise. In addition to this, lower estimates of sugar production for SS2019-20 also aided the growth in prices.
Going forward, sugar production is estimated to be lower during the sugar season of 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

Liquidity is marked by adequate accruals to repayment obligations, moderate utilized bank limits and modest cash balance. The scheduled term loan repayment for FY20 is Rs.2.2 crore. Total cash & bank balance stood at Rs.0.34 crore as on December 31, 2019. The company's average working capital utilization was 60.42% for the 12-month period ended December 2019.

Analytical approach: Standalone. Factoring in support from promoter group companies.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology - Short Term Instruments
Rating Methodology - Manufacturing companies

[Rating Methodology - Sugar Sector]
[Financial ratios (Non-Financial Sector)]
[Rating Methodology: Consolidation and Factoring Linkages in Ratings]

About the Company

Coromandel Sugars Limited (CSL), promoted by the India Cements group is engaged in the manufacture of sugar, molasses and also co-generation of power. Originally incorporated in 1996 under the name of ICL Sugars Limited, its name was changed to CSL in 2007. CSL is an associate company of The India Cements Limited (ICL, rated 'CARE A; Stable/ CARE A1') with 49.99% ownership interest through its subsidiary Coromandel Electric Company Limited (CECL, rated 'CARE BBB+; Stable/ CARE A3+') and rest of the stake is held by other group companies.
The company commenced operations in August 1999 with an installed capacity of 2,500 tonnes crushed per day (TCD). Its production facility, situated at Makkavalli, Mandya District, Karnataka has an installed capacity of 4,500 tonnes crushed per day (TCD) and a multi-fuel cogeneration power capacity of 30 MW as on March 31, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	193	186
PBILDT	35	43
PAT	(6)	2
Overall gearing (times)	3.05	4.19
Interest coverage (times)	1.04	1.04

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 - LT-Cash Credit	-	-	-	80.00	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	20.00	CARE BBB-; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	47.00	CARE BBB-; Stable / CARE A3

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 - LT-Cash Credit	LT	80.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Mar-19) 2)CARE BBB-; Stable (05-Apr-18)	1)CARE BBB-; Stable (14-Apr-17)	-
2.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (05-Apr-18)	1)CARE A- (SO); Stable (14-Apr-17)	-
3.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (04-Mar-19) 2)CARE BBB-; Stable (05-Apr-18)	1)CARE BBB-; Stable (14-Apr-17)	-
4.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	47.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Stable / CARE A3 (04-Mar-19) 2)CARE BBB-; Stable / CARE A3 (05-Apr-18)	-	-
5.	Term Loan-Long Term	LT	165.00	CARE A (CE); Stable	-	1)CARE A (SO); Stable (02-Jan-19)	-	-

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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