Magadh Sugar & Energy Limited

March 31, 2019

Ratings

Facility	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	505.50 (enhanced from 346.30)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Negative (Single A Minus; Outlook: Negative)**
Short-term Bank Facilities	39.55 (enhanced from 24.75)	**CARE A2 (A Two)**	**Revised from CARE A2+ (A Two Plus)**
Total	**545.05 (Rupees Five Hundred Forty Five crore and Five lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Magadh Sugar & Energy Limited (MSEL) takes into account the moderation in financial performance in FY18 (refers to the period April 01 to March 31) and 9MFY19. Further, debt level has witnessed increase which is not in line with the debt reduction plan and expected improvement in capital structure.

The ratings continue to draw strength from its experienced promoter and strong group, long track record of operations of the group (under Upper Ganges Sugar & Industries Limited (UGSIL) and The Oudh Sugar Mills Limited (OSML)), strategic location of the units, its integrated business model and increased thrust of government on ethanol production. The rating is, however, constrained by the inherent cyclical and seasonal nature of the sugar industry, exposure to vagaries of nature, working capital intensiveness, and regulated nature of the industry.

Improvement in the financial performance, effective management of working capital, improvement in capital structure and debt protection metrics shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong group & experienced promoters

MSEL currently belongs to Ms. NandiniNopany 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 A+; Stable/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. Over the years, the group has demonstrated continuous support to the erstwhile OSML and UGSIL by infusing funds from time to time by way of unsecured loan/ICDs through associate companies. MSEL has outstanding ICDs from group companies amounting to Rs.76.25 crore as on February 16, 2019 vis-à-vis Rs.67.25 crore as on March 31, 2018.

The management of MSEL now vests with the Board of Directors comprising 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 MSEL have an operational track record of over eight decades which were earlier operating under UGSIL and OSML. After the scheme of arrangement, MSEL is currently operating three sugar mills with an aggregate crushing capacity of 17,500 TCD and co-generation power plants of 35 MW and a distillery unit of 50 KLPD.

Strategic location of the units

Multi-location facility with proximity to sugarcane growing areas of Bihar 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

MSEL sugar manufacturing units located in Bihar are integrated with co-generation power plant. Further, the sugar unit located in Narkatiaganj in Bihar is forward integrated with a distillery unit. Hence, integrated business model provides alternate revenue stream and cushion against cyclicality of the sugar business, to some extent.

Increased thrust of government on ethanol

Government has approved funds worth Rs.2,790 crore towards interest subvention for extending indicative loan amount of Rs.12,900 crore by banks to sugar mills to create additional capacity to produce ethanol under "Scheme for extending financial assistance to sugar mills for enhancement and augmentation of ethanol production capacity" in addition to

Rs.1,332 crore already approved in June 2018. Currently, 4-5 per cent of ethanol is mixed with petrol as against a target of 10 per cent blending with biofuel. During 2017-18, the total ethanol supplies were 1.40 billion litres. However, as per ISMA, OMC's require 3.3 billion litres of ethanol for blending at 10%. The government is promoting ethanol which will help it to save on the import bill and also helps sugar mills to reduce their dependence on sugar enabling them to clear the cane arrears. To promote ethanol the government has provided interest subvention, increased the price of ethanol, fixed a separate price for B-heavy molasses based ethanol and ethanol from sugarcane juice etc.

Key Rating Weaknesses

Moderation in financial performance in FY18 and 9MFY19

The total operating income of the company witnessed improvement in FY18 compared to FY17. The net sales of the company grew by 8.68% in FY18 in view of growth in sale volume (5.58%) and stable average sales realisation. However, there has been a decline in the PBILDT margin in FY18 compared to FY17 due to writing down of inventory to NRV. The company valued its closing stock at NRV of Rs.28.5/kg (being lower than the cost per kg). The GCA of the company was Rs.26.41 crore vis-à-vis debt repayment obligation of Rs.45 crore in FY18. The payment of the shortfall in debt repayment was met out of fund infused by the promoters in the form of ICDs amounting to Rs.57.75 crore during FY18. The company has a moderate PBILDT interest coverage ratio of 1.54x in FY18 (4.11x in FY17). In 9MFY19, the turnover has slightly declined from Rs.544.51 crore in 9MFY18 to Rs.529.59 crore in 9MFY19. PBILDT has declined from Rs.54.60 crore in 9MFY18 to Rs.40.60 crore in 9MFY19 mainly due to dismal performance of sugar division. Despite reduction in PBILDT, the interest coverage ratio was stable at 1.63x in 9MFY19 due to reduction in interest expenses from Rs.32.59 crore in 9MFY18 to Rs.24.83 crore in 9MFY18. In order to support the liquidity and ensure payment to sugarcane farmers, Government of Bihar has announced a subsidy of Rs.12.50/- quintal for the sugarcane crushed by sugarmills in 2018-19.

Moderate total outside liability/Networth position

The overall gearing ratio of the company, though improved slightly, remained moderate at 1.22x as on March 31, 2018 (1.25x as on March 31, 2017). The total outside liability to networth of the company remained moderate at 1.65x as on March 31, 2018. The Total debt/GCA has deteriorated and remained high at 19.65x as on March 31, 2018.

Exposed to vagaries of nature

Being an agro-based industry, performance of MSEL 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. The working capital cycle of the company improved from 203 days in FY17 to 171 days in FY18 on account of improvement in inventory days and creditors period of the company.

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), Minimum Sale Price of Sugar, mandatory ethanol blending etc. All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

For the entire sugar year 2018-19, ISMA estimates sugar output to decline by 5.5% to 30.7 million tonnes from previous year's production of about 32.5 million tonnes. Considering these estimates India will have a closing stock of 12.4 million tonnes of sugar which is sufficient to fulfill the requirement of about 5-6 months of country's sugar consumption. This is much more than the normative requirement of 2 months stock that India keeps to avoid any disturbance in sugar supply.

The government in order to reduce surplus sugar in the country has been announcing several measures to divert sugarcane towards production of ethanol like allowing procurement of ethanol from B heavy molasses and sugarcane juice.

The cane arrears for sugarcane stood at around Rs.20,000 crore at the end of January 2019. In order to bring down the cane arrears, the government increased the sugar MSP from Rs.29/Kg to Rs.31/Kg on February 14, 2019 to ease the liquidity situation of sugar mills and enable them to repay their cane dues. Also, the government had announced a financial assistance of Rs.5.5 per quintal for sugar mills for the sugarcane crushed during the sugar year October 2017 to September 2018. Further, the Cabinet Committee on Economic Affairs (CCEA) has approved soft loans worth Rs.7,900-Rs.10,540 crore for the sugar industry to clear sugarcane dues of the current season 2018-19 and improve liquidity situation of the industry. The government shall bear the interest subvention cost at the rate of 7-10% to the extent of Rs.553 crore to Rs.1,054 crore for one year for the benefits of farmers. However, continuous Government support shall remain critical for the industry as with high inventory and expected strong production in SS2018-19, the sugar prices will remain under pressure.

Liquidity Analysis

Working capital utilization remained moderate over the last 12 months at 65%. Cash and bank balance as on March 31, 2018 stood at Rs.0.75 crore. However, the company holds sugar inventory of around Rs.250 crore as on Sep.30, 2018.

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]
[Rating Methodology – Manufacturing Companies]

About the Company

MSEL was incorporated on March 19, 2015 as a subsidiary of UGSIL. UGSIL and OSML were incorporated in 1932 by the erstwhile KK Birla group. MsNandiniNopany and Mr Chandra ShekharNopany, eldest daughter and grandson of the late Mr. K. K. Birla, inherited UGSIL and OSML after the demise of Mr. K. K. Birla on August 30, 2008. Through a Composite Scheme of Arrangement, the business undertakings located at Sidhwalia and Hasanpur, Bihar of UGSIL have been demerged to MSEL at book value from appointed date i.e. April 1, 2015. Also, the business undertaking located at Narkatiaganj, Bihar of OSML has been first transferred to Vaishali Sugar and Energy Limited (VSEL) via slump sale and is subsequently merged with MSEL from the appointed date i.e. April 1, 2015. MSEL is primarily engaged in manufacture and sale of Sugar and its By-products (molasses and bagasse), Spirits including Ethanol and Power generation in the state of Bihar.

MSEL currently belongs to Ms. NandiniNopany faction of the erstwhile KK Birla group of companies. The group is an established business house having interest in sugar, textiles and fertilizers.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Operating Income	683.76	744.09
PBILDT	162.00	66.07
PAT	58.72	24.91
Overall gearing (times)	1.14	1.22
Interest coverage (times)	4.18	1.54

A: Audited

Status of non-cooperation with previous CRA:NA

Any other information: Not Available

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-Cash Credit				375.00	CARE BBB+; Stable
Fund-based - LT-Term Loan			June 2025	130.50	CARE BBB+; Stable
Non-fund-based - ST-Bank Guarantees				19.55	CARE A2
Non-fund-based - ST-Letter of credit				0.00	Withdrawn
Fund-based - ST-Working Capital Demand loan				20.00	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 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 - LT-Cash Credit	LT	375.00	CARE BBB+; Stable	1)CARE A-; Negative (25-Jul-18) 2)CARE A-; Negative (06-Apr-18)	1)CARE A-; Stable (03-Aug-17)	-	-

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
2.	Fund-based - LT-Term Loan	LT	130.50	CARE BBB+; Stable	1)CARE A-; Negative (25-Jul-18) 2)CARE A-; Negative (06-Apr-18)	1)CARE A-; Stable (03-Aug-17)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	19.55	CARE A2	1)CARE A2+ (25-Jul-18) 2)CARE A2+ (06-Apr-18)	1)CARE A2+ (03-Aug-17)	-	-
4.	Non-fund-based - ST-Letter of credit	ST	-	-	1)CARE A2+ (25-Jul-18) 2)CARE A2+ (06-Apr-18)	1)CARE A2+ (03-Aug-17)	-	-
5.	Fund-based - ST-Working Capital Demand loan	ST	20.00	CARE A2	1)CARE A2+ (25-Jul-18) 2)CARE A2+ (06-Apr-18)	-	-	-

CONTACT

Head Office Mumbai

Ms. MeenalSikchi
Cell: + 9198190 09839
E-mail: meenal.sikchi@careratings.com

Mr. AnkurSachdeva
Cell: + 9198196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 9199675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 9198209 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. AnandJha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91-0172-490-4000/01
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, PashupatiAkshatHeights, 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 KumarSenate,
Plot No. 970, Bhamburda, SenapatiBapat Road,
ShivajiNagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail:pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691