Magadh Sugar & Energy Limited

July 25, 2018

Ratings

Facility	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	346.30 (reduced from 350.3)	**CARE A-; Negative (Single A Minus; Outlook: Negative)**	**Reaffirmed**
Short-term Bank Facilities	24.75	**CARE A2+ (A Two Plus)**	**Reaffirmed**
Total	**371.05 (Rupees Three Hundred Seventy One crore and Five lakh Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Magadh Sugar & Energy Limited (MSEL) draws strength from its experienced promoter and strong group, group capacity being one of the largest in the domestic sugar industry, long track record of operations of the group (under Upper Ganges Sugar & Industries Limited (UGSIL) and Oudh Sugar Mills Limited (OSML)), strategic location of the units and its integrated business model. The rating is, however, constrained by moderation in financial performance in FY18 (refers to the period April 01 to March 31), moderate total outside liability/Networth position, working capital intensiveness, the inherent cyclical and seasonal nature of the sugar industry, exposure to vagaries of nature, and regulated nature of the industry.

The changes in government policies relating to the sugar industry, improvement in capital structure through debt reduction and increase in sugar prices are the key rating sensitivities.

Outlook: Negative

The outlook continues to be 'Negative' in view of unfavourable demand-supply dynamics in domestic and global market and expected high production in SS2018-19 which shall continue to put pressure on sugar price in the medium term. However, the measures including maintenance of buffer stock, monthly sale quota etc by Government of India are supporting the sugar prices currently. The outlook may be revised to 'Stable' on improvement in profitability leading to significant debt reduction.

Detailed description of the key rating drivers

Key Rating Strengths

Strong group & experienced promoters

MSEL currently belongs to Ms. Nandini Nopany 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 AA-; 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.67.25 crore as on March 31, 2018 (Rs.9.5 crore as on March 31, 2017).

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.

Industry update

The sugar prices which were earlier at Rs.38.2/Kg in January 2017 declined to Rs.36.9/Kg in October 2017 and fell further to Rs.27 per kg in May 2018. The prices have reached this level after a gap of almost 2 years on account of bumper production in the current sugar season. The government has taken several steps to control the fall in sugar prices such as it scrapped export duty of 20%, allotted a minimum export quota of 2mn MT and raised import duty to 100% on sugar. The government has also fixed the minimum selling price of white/refined sugar at Rs.29/Kg. The mills cannot sell sugar below this rate. As per the Indian Sugar Mills Association (ISMA), cumulative sugar output in India stood at 31 mn MT during October 2017-April 2018 which is 53% more than the production achieved last year (20.3 mn MT) and is estimated to reach 31.5-32 mn MT during 2017-18.In order to reduce sugarcane arrears, which had reached more than Rs.22,000 crore, the government has announced the financial assistance of Rs.5.5 per quintal for sugar mills for the sugarcane crushed during sugar year October 2017 to September 2018. The Central Government has also taken steps to create a buffer of 3 mn MT to restrict the supply of excess sugar in the market. The government will in return, compensate them with an interest cost of 12% p.a. or actual interest charged by banks, whichever is lower, plus an annual insurance and storage charge at 1.5%.

This apart, the government will also bear the interest subvention of maximum Rs.1,332 crore over a period of 5 years including moratorium period of 1 year to be sanctioned to the sugar mills by the banks over a period of 3 years to be used by the sugar mills to increase the capacity of existing distilleries and to install new distilleries. The government has also hiked the ethanol prices for ethanol produced by 7% from Rs.40.85 per litre to Rs.43.70 per litre to be effective from December 2018.

Key Rating Weaknesses

Moderation in financial performance in FY18

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).

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). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments
Criteria for Wholesale Trading Companies
Rating Methodology: Factoring Linkages in Ratings

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. Ms Nandini Nopany and Mr Chandra Shekhar Nopany, 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. Nandini Nopany 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)	FY18 (A)	FY17 (A)
Total Operating Income	744.09	683.76
PBILDT	66.07	162.00
PAT	24.91	58.72
Overall gearing (times)	1.22	1.14
Interest coverage (times)	1.54	4.18

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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.*

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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 - LT-Cash Credit	-	-	-	230.30	CARE A-; Negative
Fund-based - LT-Term Loan	-	-	June 2025	116.00	CARE A-; Negative
Fund-based - ST-Working Capital Demand loan	-	-	-	19.55	CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	0.20	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	5.00	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	230.30	CARE A-; Negative	1)CARE A-; Negative (06-Apr-18)	1)CARE A-; Stable (03-Aug-17)	-	-
2.	Fund-based - LT-Term Loan	LT	116.00	CARE A-; Negative	1)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+ (06-Apr-18)	1)CARE A2+ (03-Aug-17)	-	-
4.	Non-fund-based - ST-Letter of credit	ST	0.20	CARE A2+	1)CARE A2+ (06-Apr-18)	1)CARE A2+ (03-Aug-17)	-	-
5.	Fund-based - ST-Working Capital Demand loan	ST	5.00	CARE A2+	1)CARE A2+ (06-Apr-18)	-	-	-

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