Magadh Sugar & Energy Limited

August 03, 2017

Ratings

Facility	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	**319.30**	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	Assigned
Short-term Bank Facilities	**19.75**	**CARE A2+ (Single A Two Plus)**	Assigned
Total Bank Facilities	**339.05 (Rupees Three Hundred Thirty Nine Crore and Five Lakh Only)**		

^Part of the above mentioned bank facilities has been transferred from The Oudh Sugar Mills Limited (OSML) and Upper Ganges Sugar & Industries Limited (UGSIL) under the composite scheme of arrangement
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, continued favourable sugar industry outlook backed by firm sugar prices, long track record of operations (under UGSIL and OSML), strategic location of the units, its integrated business model, and improved financial performance in FY17 (refers to the period April 1 to March 31). The ratings are also supported by the management's strong debt reduction plan out of the future cash generation supported by buoyant industry scenario. 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.

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

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/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.

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. The distillery division utilizes the molasses produced by the sugar mills as their raw material for production of ethanol which is sold to petroleum marketing companies for blending with petrol. Similarly, the power plants use bagasse as combustion fuel for generating power. Hence, integrated business model provides alternate revenue stream and cushion against cyclicality of the sugar business, to some extent.

Continued favourable sugar industry scenario backed by firm sugar prices

For SS 2016-17, the domestic availability of sugar is estimated at 28.5 mn MT. This includes opening stock of 7.7 mn MT, production of 20.3 mn MT and imports of 0.5 mn MT. The stock available with the country is sufficient to meet the expected consumption of about 24 mn MT during SS2016-17. India therefore is likely to have a closing stock of 4.5 mn MT of sugar for the SS 2016-17.

Hence, 4.5 mn MT of opening stock and likely production of 25.1 mn MT of sugar in SS 2017-18 (as per ISMA estimates) shall be sufficient to meet the estimated domestic consumption of around 24.6 mn MT.

CARE expects stable outlook for industry in medium-term on the back of supportive measures by the government (import duty recently increased to 50% from 40%), sustained healthy sugar prices, and lower stock level. This is likely to result in strong financial performance and profit margins of sugar players in FY18 as well.

Improvement in financial performance in FY17 and significant debt reduction plan going forward

Financial risk profile of the company witnessed significant improvement in FY17 due to sustained healthy sugar prices. MSEL reported PBILDT of Rs.162 crore on total operating income of Rs.683.76 crore in FY17 vis-à-vis PBILDT of Rs.33.05 crore on total operating income of Rs.481.41 crore in FY16. Both the PBILDT margin and PAT margin of the company improved and remained on a higher side at 23.69% and 8.59% respectively in FY17 (6.78% and -6.73% respectively in FY16) since the opening stock which was held with the company and was valued at around Rs.28 per kg (at NRV) has been sold at an average rate of Rs. 36 per kg during FY17. In FY17, the company generated GCA of Rs.102.98 crore vis-à-vis debt repayment obligation of Rs.47.95 crore. The overall gearing ratio improved from 1.39x as on Mar.31, 2016 to 1.14x as on mar.31, 2017, and is expected to improve to around 0.8x levels as on the next account closing date and around 0.5x as on Mar.31, 2019, out of the expected healthy cash accruals, supported by absence of any major capex plan.

Key Rating Weaknesses

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.

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.

Prospects

The firm sugar price supported by government's move to raise import duty on sugar and lower stock level in the industry is expected to result in healthy profits and accruals in near term. Moreover, the integrated business model and strong group profile also supports the long-term prospects of the company. Improvement in capital structure through debt reduction, in the absence of any major expansion plan shall be crucial from credit perspective.

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]
[CARE's methodology for manufacturing companies]
[Rating Methodology: Factoring Linkages in Ratings]

About the Company

Magadh Sugar & Energy Limited (MSEL) was incorporated on March 19, 2015 as a subsidiary of Upper Ganges Sugar & Industries Limited (UGSIL). 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, in the state of Bihar.

Brief Financials (Rs. Crore)	FY17 (A)	FY16 (A)
Total Operating Income	683.76	487.41

PBILDT	162.00	33.05
PAT	58.72	-32.82
Overall gearing (times)	1.14	1.39
Interest coverage (times)	4.18	0.85

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-Term Loan	-	-	June 2026	109.00	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	210.30	CARE A-; Stable
Non-Fund –based – ST-BG/LC	-	-	-	19.75	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	109.00	CARE A-; Stable	CARE A-; Stable	-	-	-
2.	Fund-based - LT-Cash Credit	LT	210.30	CARE A-; Stable	CARE A-; Stable	-	-	-
3.	Non-Fund –based – ST-BG/LC	ST	19.75	CARE A2+	CARE A2+	-	-	-

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CIN - L67190MH1993PLC071691