Magadh Sugar& Energy Limited

April06, 2018

Ratings

Facility	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	350.3 (enhanced from 319.3)	CARE A-; Negative (Single A Minus; Outlook: Negative)	Rating reaffirmed; Outlook revised from Stable
Short-term Bank Facilities	24.75 (enhanced from 19.75)	CARE A2+ (Single A Two Plus)	Reaffirmed
Total	**375.05 (Rupees Three Hundred Seventy Five 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, continued favourable sugar industry outlook backed by firm sugar prices, 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 9MFY18 and expected level of increase in debt, the inherent cyclical and seasonal nature of the sugar industry, exposure to vagaries of nature, working capital intensiveness, regulated nature of the industry and current pressure on sugar price trend due to higher domestic sugar production.

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

Outlook: Negative

The outlook has been revised from 'Stable' to 'Negative' in view of expected increase in debt level despite MSEL's strong debt reduction plan out of the expected cash generations and current declining trend of sugar prices expected to have adverse bearing on profitability. 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/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.

Key Rating Weaknesses

Moderation in financial performance in 9MFY18 and expected increase in debt

The total operating income of the company witnessed improvement in 9MFY18 compared to 9MFY17. However, there has been a decline in the PBILDT margin in 9MFY18 compared to 9MFY17 since the opening stock was valued at Rs.33/Kg as on March 31, 2017 was sold at an average rate of Rs.37.5/Kg during 9MFY18 giving a margin of only Rs.4.5/Kg compared to opening stock valued at Rs.28/Kg as on March 31, 2016 being sold at an average rate of Rs.36/Kg giving a margin of Rs.8/Kg resulting in high profits in 9MFY17. MSEL reported PBILDT of Rs.54.60 crore on total operating income of Rs.546.37 crore in 9MFY18 vis-à-vis PBILDT of Rs.100.75 crore on total operating income of Rs.500.87 crore in 9MFY17. Debt level is estimated to increase as on March 31, 2018 vis-à-vis the expected debt reduction plan provided by the Company, on account of increase in inventory holding and lower than expected profitability. Reduction of debt going forward shall remain crucial from credit perspective.

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

Sugar prices tend to be under pressure going forward

The sugar production in the ongoing season (SS18) is projected at a record 29.5 mt (by ISMA) which is about 45% more than the production achieved last year. Till March 31, 2018, sugar mills have produced 28.2 mt, as compared to 18.9 mt last season. Due to an unexpected surplus sugar availability of around 45 lac tons of sugar over and above the required closing balance during the current 2017-18 season, domestic ex-mill prices have crashed once again and all India average ex-mill sugar price are hovering about Rs.30,000 per MT. The sugar balance as a result is expected to rise to level which has imparted pressure on sugar prices. However, the government has scrapped export duty of 20% and allotted a minimum export quota of 2 mt to support the sugar prices. While Maharashtra, UP and Karnataka contributed to the growth in production in the ongoing season, TN, AP and Telangana are witnessing lower sugar production.

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. 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.

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-Cash Credit	-	-	-	230.30	CARE A-; Negative
Fund-based - LT-Term Loan	-	-	June 2025	120.00	CARE A-; Negative
Fund-based - ST-Working Capital Demand loan	-	-	-	5.00	CARE A2+
Non-fund-based - ST-Bank Guarantees	-	-	-	19.55	CARE A2+
Non-fund-based - ST-Letter of credit	-	-	-	0.20	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-; Stable (03-Aug-17)	-	-
2.	Fund-based - LT-Term Loan	LT	120.00	CARE A-; Negative	-	1)CARE A-; Stable (03-Aug-17)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	19.55	CARE A2+	-	1)CARE A2+ (03-Aug-17)	-	-
4.	Non-fund-based - ST-Letter of credit	ST	0.20	CARE A2+	-	1)CARE A2+ (03-Aug-17)	-	-
5.	Fund-based - ST-Working Capital Demand loan	ST	5.00	CARE A2+	-	-	-	-

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