Mawana Sugars Limited

February 08, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Fund Based – LT/ST – Working Capital Limit	25.00	**CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/ A Four)**	**Assigned**
Total	**25.00 (Rs. Twenty five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Mawana Sugars Limited (MSL) takes into account the experienced promoters, long track record of operations, integrated business model with co-generation and distillery operations, diversified revenue stream through the chemical segment and moderate financial risk profile. However, these rating strengths are partially offset by current weak scenario of sugar industry, the cyclical nature of the sugar industry, working capital intensive nature of operations and regulated nature of the business.

Going ahead, MSL's ability to enhance its profitability while managing its working capital requirement & capital structure amidst highly regulated industry environment shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and long track record: Mr. Sidharth Shriram, promoter of MSL has more than 3 decades of experience. He is the grandson of Lala Shriram, who had incorporated the DCM group in 1889. Siddharth Shriram Group has diverse interests including sugar, edible oils, industrial chemicals to fans, appliances and automobiles. MSL has been in business for more than 60 years. Mr. Dharam Pal Sharma is the Whole Time Director and has over 37 years of experience in sugar industry.

Diversified revenue stream and integrated business model: MSL's chemical segment in which the company manufactures chlor-alkali chemicals such as Caustic Soda, Caustic flakes, Chlorine etc. provides diversification to the revenue. MSL's sugar division is also fully integrated with forward integration into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent. MSL operates 19,000 tonne crushed per day (TCD) of sugar capacities, which are forward integrated into power and alcohol business with co-generation capacity of 47 megawatt (MW) and distillery capacity of 120 kilo litre per day (KLPD). Further, MSL has manufacturing capacity of caustic soda of 82,500 metric tonne per annum (MTPA) and chlorine of 73,095 metric tonne per annum (MTPA). During FY18, the distillery and power division together contributed around 16.52% of the gross revenue from operations, chemicals contributed 15.26% and balance 68.22% was from the sugar division.

Moderate financial risk profile: Total income from operations registered a growth of 12.69% to Rs 1345.25 crore in FY18 from Rs 1193.73 crore in FY17 attributable to the higher sales in sugar, chemical and power segment. PBILDT margin however, decreased to 2.72% in FY18 from 13.91% in FY17 due to lower sugar price realization. In FY18, PAT margin decreased to 1.21% from 30.40% in FY17 as during FY17 MSL had extraordinary income of Rs 349.29 crore including profit on sale of Titawi unit of Rs 234.70 crore and write back of loan liabilities of Rs 114.58 crore.

Total debt reduced to Rs 141.25 crore as on 31st Mar 2018 from Rs 242.36 crore as on 31st Mar 2017 as the company repaid loans to banks and Edelweiss Asset Reconstruction Company (EARC). The overall gearing has improved to 0.40x as on 31st Mar 2018 from 0.71x as on 31st Mar 2017.

In H1FY19, total income from operations decreased to Rs 584.98 crore from Rs 620.68 crore in H1FY18 primarily due to lower sales realization in the sugar segment.

Key Rating Weaknesses

Weak Sugar Industry Scenario: The outlook on the domestic demand - supply scenario and the prices remains weak in the medium term given the oversupply situation in the country. The sugar production in the sugar season (SS18) was recorded at 32.3 MT (by ISMA) which is about 59% more than the production achieved in SS17. Due to unexpected surplus sugar availability domestic ex-mill prices have remained low which has exerted pressure on the margins of the

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

domestic mill owners. Though the government has taken a number of steps to control the fall in sugar prices such as setting minimum sale price of sugar at Rs 29 per kg and it also increased the ethanol prices to support sugar mills and help them clear payment to 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.

Cyclical nature of the sugar business: The industry is cyclical in nature on account of variations in the sugarcane production in the country. The farmers reduce the area under cultivation for sugarcane in the country on delays in sugarcane payments to the farmers by the mill owners. The reduction in area results in lower sugarcane availability thus driving the sugar prices to higher levels. The farmers increase the area under sugarcane cultivation on expectation of higher sugar prices. However, the operations of MSL are fully integrated with forward integration into cogeneration and distillery operations, making it relatively less vulnerable to cyclicality of the sugar industry.

Working capital intensive operations: Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. Though the company has de-risked their model by reducing dependence on sugar to some extent, the fortune of sugar segment may affect the overall profitability and fund requirement. The company does not have any existing CC limits and MSL manages its working capital cycle by making a payment of 85% of its sugar realisation to farmers under the UP cane commissioner's authority.

Regulated nature of sugar business: 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.

Liquidity: MSL has moderate liquidity profile with current ratio of 0.86x in FY18 (PY: 0.93x). The current ratio was low on account of high payables amounting to Rs 538.57 crore related to payment to farmers for sugarcane and current portion of long term debt of Rs 44.20 crore. Against this, MSL had inventory of Rs 419.32 crore and cash & cash equivalents of Rs 50.84 crore.

Analytical Approach: Standalone

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

About the Company
Formerly known as Siel Limited, Mawana Sugars Limited (MSL), was founded by Shriram Enterprises in 1949 and later emerged as an independent entity in 1989 with the restructuring of the erstwhile DCM Group. MSL is now part of the Siddharth Shriram Group which is a diversified group with business interests in sugar, chemicals, edible oils, sewing machines, fans, home appliances, lighting products, engines and automotive components. MSL is engaged in the manufacturing and marketing of Sugar, Ethanol and Co- generation of Power at its units at Mawana Sugar Works, Meerut, (U.P.) and Nanglamal Sugar Complex, Meerut (U.P.). The company also has capacity to manufacture Chlor-Alkalies chemicals such as Caustic Soda, Chlorine, Hydrogen, etc. in Siel Chemical Complex (SCC), Rajpura, Punjab. As on Sep 30, 2018 MSL's sugarcane crushing capacity stood at 19,000 TCD, co-generated power capacity at 47 MW and ethanol production capacity per day at 120 KLPD.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	1193.73	1345.25
PBILDT	166.03	36.60
PAT	361.07	16.29
Overall gearing (times)	0.71	0.40
Interest coverage (times)	3.78	1.78

A: Audited

Status of non-cooperation with previous CRA:
Not Applicable
Any other information:
Not Applicable

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:
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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/ ST-Working Capital Limits	-	-	-	25.00	CARE BB; Stable / CARE A4

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/ ST-Working Capital Limits	LT/ST	25.00	CARE BB; Stable / CARE A4	-	-	-	-

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