Mawana Sugars Limited

October 05, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	296.30 (Reduced from 296.40)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	3.70 (Enhanced from 3.60)	CARE BB+; Stable / CARE A4+ (Double B Plus ; Outlook: Stable / A Four Plus)	Reaffirmed
Total Facilities	300.00 (Rs. Three Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings for the bank facilities of Mawana Sugars Limited (MSL) takes into account its integrated business model with cogeneration & distillery operations and diversified revenue stream through the chemical segment which continues to provide alternate revenue streams and cushions against the cyclicality of the sugar business to a large extent. Further, the rating also draws comfort from its moderate financial risk profile, experienced promoters and management team and long track record of operations. However, these rating strengths are partially offset by the cyclical nature of the sugar industry, working capital intensive nature of operations and regulated nature of the business.

MSL has sought moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. In the anticipation of the said approval following the regulatory package by RBI some of the scheduled repayments were deferred by the company. The moratorium was approved by the lenders of MSL. CARE has not recognized this instance as a default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Rating sensitivities

Positive Factors:

- Ability of the company to increase its scale of operations by more than 20% from its current levels on a sustained basis.
- Ability to enhance its PBILDT margins by more than 7% on sustained basis.
- Ability to improve the capital structure marked by overall gearing of less than 1.50x on a sustained basis.

Negative Factors:

- Decline in profitability margins as marked by PBILDT margin below FY20 level on a sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity.

Detailed description of the key rating drivers

Key Rating Weaknesses

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 average working capital utilization at maximum level for past 12 months ended August 2020 stood at around ~99%.

Liquidity: The liquidity profile of the company is stretched. The current ratio stood at 1.05x as on March 31, 2020 on account of high cane arrears and high repayments which are due in FY21. Operating cycle of the company stood at 52 days in FY20 as against 7 days in FY19 due to decrease in creditor period to 172 days in FY20 from 207 days in FY19. The company has high inventory days as manufacturing of sugar takes place during November to April, while sales takes place uniformly during the complete year and also due to imposition of sales quota on sugar companies which led to high inventory days. Cane Dues as on 30th Jun 2020 stood at Rs. 515 crore and sugar stock as on 30th Jun 2020 stood at Rs 679 crore (22.42 lac qtls @ Rs. 3021 per qtl). Cash and bank balance as on March 31, 2020 stood at Rs. ~47 crores (including fixed deposits of Rs. 14.75 crores with original maturity of 3 months or less) as on March 31, 2020 and the same stood at Rs 30.65 crore as on June 30, 2020. As on March 31, 2020, company has outstanding subsidy receivables of around ~Rs. 88 crores is outstanding as on June 30, 2020 on account of sugar exports, buffer stock maintained and interest

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

subvention receivables on soft loans, etc. Buffer stock of the company stood at Rs. 126 crores as on June 31, 2020 (4.08 lac QTL @30.87 per Kg). The average working capital utilization at maximum level for past 12 months ended August 2020 stood at around ~99%. Total repayments due for FY21 are ~Rs126 crore. Company had also applied and availed the first moratorium under the RBI relief package for some of its scheduled repayments.

Cyclical & 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.

Key Rating Strengths

Moderate financial risk profile: Total income from operations increased by ~20% to Rs 1404.43 crores in FY20 from Rs 1169.73 crores in FY19 attributable to the higher sales in sugar and distillery segment. However, PBILDT margin has decreased to 5.86% in FY20 from 10.30% in FY19 on account of lower profitability from the power & chemical segments. In the sugar segment, the revenue has increased on account of increased quantity sales and improved realization during the year. Sugar realisation improved to Rs. 3262/QTL in FY20 as compared to Rs.3101/QTL on the back of Sugar MSP of Rs. 31 per KG during the period. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory, higher exports for the SS 2019-20 have also aided the improvement in prices. In Power segment, profitability and sales have declined in FY20 is on account of decreased quantity sales and reduction in tariff rate by Uttar Pradesh Electricity Regulatory Commission retrospectively from 1 April 2019. In chemical segment, ECU realization has declined from Rs. 37,674 per MT in FY19 to Rs. 31,259 per MT in FY20 on account of increased supply during the year, which has resulted in lower profitability in the segment. Company successfully installed incinerator boiler and commercial operation has been started w.e.f Feb'20. Incinerator Boiler will enable the unit to run for increased number of days and result increased capacity utilization in future years. This shall contribute positively to MSL’s financial profile going forward.
Total debt has increased to Rs. 486.88 crores as on 31st Mar 2020 from Rs 237.80 crores as on 31st Mar 2019 with increase of term loan borrowings and working capital borrowings of the company Term loan increased in FY20 majorly on account of soft loan by the company. On account of increase in total debt, the overall gearing of the company has also increased to is 1.53x as on March 31, 2020 as against 0.60x as on March 31, 2019.
The total operating income increased by ~33% to Rs.431.84 crore in Q1FY21 against Rs.323.75 crore in Q1FY20 due to higher sales in distillery and sugar segment. However, PBILDT margin also declined to 3.76% in Q1FY21 from 11.50% in Q1FY20 majorly on account losses in chemical segment on account nationwide lockdown ordered by the Government of India w.e.f. 24th March 2020 led to complete shutdown of Company’s Chemical business which could however be restarted in limited way from April 02, 2020. Also, due to the lockdown imposed, demand from consuming industries such as Pulp & Paper, Textile, Soap, Edible Oil Refineries etc declined which led to lower sales and profitability in the segment.

Experienced promoters and long track record: Mr. Sidharth Shriram, promoter of MSL has more than 3 decades of experience. 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 FY20, the distillery and power division together contributed around 17.53% to gross revenue, chemicals contributed 12.82% and balance was from the sugar division.

Industry Outlook
For SS 2020-21, India’s sugar output is expected to increase by 17.7% y-o-y to 32 million tonnes as per the preliminary estimates released by ISMA. This is likely to aggravate the already surplus sugar supply situation in India. The estimate does not include diversion of cane juice and B-molasses towards ethanol which is expected to result in 1.5 million tonnes of less sugar in sugar year 2020-21. The average domestic sugar prices remained almost stable and were in the range of Rs.33 per kg – Rs.34 per kg during the period October 2019-March 2020 backed by lower sugar output and higher exports

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for the SS 2019-20. In addition to this, monthly sales quota and encouragement to increase diversion of sugarcane towards ethanol to reduce sugar inventory have also aided the stability in prices.
In July 2020 sugar prices improved by 4.7% m-o-m to Rs.33.9 per kg. The prices had also increased 1.6% sequentially in June 2020 as per Wholesale Price Index (WPI). Some recovery in demand from bulk consumers such as restaurants which were allowed to operate (though with various restrictions) is believed to have resulted in the improvement in prices. Sugar prices in June 2020 (at Rs.32.3 per kg) however were 4% lower compared to the average sugar prices of Rs.33.7 per kg in the first 6 months of SS 2019-20 (prior to lockdown). Post lockdown, sugar prices had declined by 0.3% in April 2020 and by another 0.9% in May 2020 on sequential basis as per WPI. Subdued demand from bulk consumers like restaurants, eateries, food services etc. due to imposition of lockdown on account of Covid-19 is believed to have impacted sugar prices during these two months. The Cabinet Committee on Economic Affairs (CCEA) announced FRP for sugarcane at Rs.285 per quintal for the sugar season (SS) 2020-21 for a basic recovery rate of 10%. This is 3.6% higher than the FRP of Rs.275 per quintal during 2019-20 when it was kept unchanged. The higher cost of sugar production is likely to affect the sugar mills given the current scenario of sugar industry where surplus sugar supply is already restricting any major growth in sugar prices. Government is also mulling an increase of Rs 2/kg in the minimum selling price of sugar (MSP) from Rs 31/kg to Rs 33/kg from October 1, 2020 which will improve the profitability of the sugar companies in H2FY21.

Analytical Approach: Standalone

Applicable Criteria
CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
Rating Methodology – Manufacturing Companies
Rating Methodology-Sugar Sector
CARE's methodology for financial ratios (Non Financial sector)
Liquidity Analysis of Non-financial sector entities

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 June 30, 2019 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)	FY19 (A)	FY20 (A)
Total operating income	1169.73	1404.43
PBILDT	120.46	82.35
PAT	42.44	-79.68
Overall gearing (times)	0.60	1.53
Interest coverage (times)	5.16	3.33

A: Audited

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

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	-	-	-	3.70	CARE BB+; Stable / CARE A4+
Fund-based - LT-Term Loan	-	-	Dec 2024	131.30	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	165.00	CARE BB+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	3.70	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (09-Oct-19)	1)CARE BB; Stable / CARE A4 (08-Feb-19)	-
2.	Fund-based - LT-Term Loan	LT	131.30	CARE BB+; Stable	-	1)CARE BB+; Stable (09-Oct-19)	-	-
3.	Fund-based - LT-Cash Credit	LT	165.00	CARE BB+; Stable	-	1)CARE BB+; Stable (09-Oct-19)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Cash Credit	Interest @ 10.25% with monthly rests or other rests and rates as may be prescribed by the U.P. Cooperative bank Ltd., from time to time shall be charged. Interest accrued shall be recovered to debit of respective cash credit loan A/Cs.
2. Term loan	Interest subvention upto 7% simple interest shall be provided to the sugar mills through bank for the maximum period of 1 year by the Government of India
B. Non-financial covenants	
1. Cash Credit	All the facilities to be secured by the hypothecation of book debts of the mill as collateral security
2. Term loan	The loan will be secured by the corporate guarantee of Mawana group company. Further all the credit facilities of Mawana group will also be secured with the first pari passu charge on the fixed assets of the company. Further the existing charge will also be extended to the extent of said loan.

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Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple
3.	Fund-based - LT/ ST-Working Capital Limits	Simple

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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