Mawana Sugars Limited

October 09, 2019

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term / Short-term Bank Facilities	3.60 (reduced from 25.00)	**CARE BB+; Stable/CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)**	**Revised From CARE BB; Stable/CARE A4 (Double B; Outlook: Stable/ A Four)**
Long-term Bank Facilities	150.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Assigned**
Long-term Bank Facilities	146.40	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Assigned**
Total	**300.00 (Rs. Three Hundred crores only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Mawana Sugars Limited (MSL) takes into account the improvement in its financial risk profile in FY19 (refers to period from April 01 to March 31) on the back of improved profitability from its chemical division & reduced losses in the sugar segment. The ratings continue to derive strength from the experienced promoters and management team, long track record of operations and its integrated business model with cogeneration & distillery operations and diversified revenue stream through the chemical segment. 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.

Going ahead, the ability of the company to improve its revenue profile & enhance its overall profitability and improve its capital structure amidst highly regulated industry environment shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

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.

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. MSL got the sanction for cash credit limits in April 2019 for Rs 150 crore. The average working capital utilization for three months period ended June 2019 stood at approximately 75%.

Key Rating Strengths

Improved financial risk profile: During FY19, PBILDT margins of MSL improved to 10.37% from 2.66% in FY18. The primary reason for the same is decrease in losses from sugar segment and higher realization in chemical segment. On account of improved profitability; the interest coverage indicators have also improved from 1.71x as on March 31, 2018 to 5.16x as on March 31, 2019. The total income from operations however declined by 13.80% to Rs 1161.88 crores in FY19 from Rs 1348.41 crores in FY18 attributable to the lower sugar sales. This was mainly on account of allocation of monthly sales quota by the government to all the manufacturers in the sugar industry as a measure to control its prices, which was partially offset by better performance in chemical segment which registered a growth in net revenue of around 13.31% in FY19. Sales in chemical segment increased on account of higher quantity sales and higher realization from ECU (Electro chemical unit) segment. Average realization from ECU increased from Rs.35,499 per metric tonne in FY18 to Rs.37,674 per metric tonne in FY19. This has resulted in overall improvement in profitability of the company. Also, ECU realization has

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

declined in Q1FY20 to Rs. 37,434 per MT due to easing of government restrictions on chemical plants in china and hence there has been an increase in the supply of chemicals which led to lower realization.
Overall gearing of the company increased to 0.64x as on March 31, 2019 as compared to 0.40x as on March 31, 2018 on account of soft loan taken by the company for cane arrears repayment. Total debt increased to Rs 256.26 crore as on 31st Mar 2019 from Rs 141.25 crore as on 31st Mar 2018. Further, MSL has also availed Cash credit limit of Rs. 150 crores in April, 2019.
In Q1FY20 (refers to period from April 01 to June 30), total income from operations decreased to Rs 315.97 crore from Rs 333.74 crore in Q1FY19 primarily due to lower sales in the sugar and power segment & also on account of lower realizations from the chemical segment.
MSL is also installing an incinerator boiler which will enable the company to increase its production of ethanol and reduce its dependence on sugar business. The total capex for the project is around Rs.40 crores to be funded in debt & equity ratio of 75:25 and it is expected to be commissioned from December 2019.

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 FY19, the distillery and power division together contributed around 7.50% of the TOI, chemicals contributed 25.17% and balance 67.33% was from the sugar division.
CARE takes into account that against the prevailing tariffs of ~Rs 5.00 to ~Rs 6.75 per unit for the purchase of cogenerated power supplied by sugar mills to UP Power Corporation Limited (UPPCL), the UP Electricity Regulatory Commission (UPERC) has proposed paring the rate by around Rs 2.25 per unit, or by around 35%, for the next five years. MSL's current rate is Rs 5.00 per unit & is expected to be reduced to ~ Rs 2.50 to Rs.3.00 per unit. Power is however only contributing ~3% to its total operating income & as such the impact on its overall revenue profile will not be very significant.

Moderate Liquidity: The liquidity profile of the company remains moderate with diversified revenue streams and current ratio of 1.03x as on March 31, 2019. Operating cycle of the company stood at 7 days as on March 31, 2019 (PY: 0 days). The company has high inventory days at 202 days in FY19 (PY:119 days) due to imposition of sales quota on sugar companies which has led to high inventory days. Creditor days have also increased to 209 days in FY19 (PY: 132 days) as company was stretching its cane arrears to meet its working capital requirements. It has however availed Cash credit limit of Rs. 150 crores in April 2019 which will help in managing its working capital requirements & the average utilization for three months ended June 2019 stood at ~75% leaving adequate buffer for the company. Cash and bank balances stood at Rs.31.41 crores (including fixed deposits of Rs. 15.45 crores) as on March 31, 2019 and cane arrears stood at Rs. 220 crores as on September 23, 2019 against Rs. 555 crores as on 31st Mar 2019. MSL has debt repayments of Rs 61.94 crore in FY20.

Industry Outlook
For the entire sugar year 2018-19, Indian Sugar Mills Association (ISMA) estimates sugar output to have increased from 32.5 million tonnes in SS18 (refers to period from October to September) to around 33.0 mn tonnes in SS19. Considering these estimates India will have a closing stock of 14.7 million tonnes of sugar at the beginning of the next sugar season which is sufficient to fulfil the requirement of about 5-6 months of country's sugar consumption. This is much more than the normative requirement of 2 months stock that India keeps to avoid any disturbance in sugar supply. However, due to various government regulations, such as increase in minimum sale price of sugar at Rs.31 per kg in Feb 2019 from Rs. 29/kg, the prices are expected to have a support. Other government initiatives such as increase in the ethanol prices to support sugar mills and providing financial assistance to mills to help them clear payment to farmers are also expected to augur well for the industry. Sugar production, though expected to be lower in SS2019-20, is expected to be more than domestic requirement (ISMA). Government policy in respect of SAP, MSP, buffer stock, subsidies, etc., shall be critical.

Analytical Approach: Standalone

Applicable Criteria

[CARE's methodology for Short-term Instruments](#)
[CARE's Criteria on assigning Outlook and Credit watch to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's Methodology for manufacturing companies](#)
[Financial ratios – Non-Financial Sector](#)

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)	FY18 (A)	FY19 (A)
Total operating income	1348.41	1161.88
PBILDT	35.89	120.46
PAT	16.24	42.44
Overall gearing (times)	0.40	0.64
Interest coverage (times)	1.71	5.16

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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-Cash Credit	-	-	-	3.60	CARE BB+; Stable / CARE A4+
Fund-based - LT-Term Loan	-	-	2023	146.40	CARE BB+; Stable
Fund-based - LT-Cash Credit	-	-	-	150.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT/ ST-Cash Credit	LT/ST	3.60	CARE BB+; Stable / CARE A4+	-	1)CARE BB; Stable / CARE A4 (08-Feb-19)	-	-
2.	Fund-based - LT-Term Loan	LT	146.40	CARE BB+; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit	LT	150.00	CARE BB+; Stable	-	-	-	-

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. Termloan	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.

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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