Ponni Sugars (Erode) Limited

October 03, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Fund Based Bank Facilities (Term Loan)	9.06	**CARE BBB; Negative [Triple B; Outlook: Negative]**	Rating Reaffirmed; Outlook revised to Negative from Stable
Long Term Fund Based Bank Facilities (Cash Credit)	40.00	**CARE BBB; Negative [Triple B; Outlook: Negative]**	Rating Reaffirmed; Outlook revised to Negative from Stable
Long- term/Short-term Fund Based/Non-Fund based bank facilities	10.00	**CARE BBB; Negative / CARE A3+ [Triple B ; Outlook: Negative/ A Three Plus]**	Rating Reaffirmed; Outlook revised to Negative from Stable
Short-term bank facilities (Non-Fund Based)	1.50	**CARE A3+ [CARE A Three Plus]**	Reaffirmed
Total	**60.56 (Rupees Sixty crore and fifty six lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Ponni Sugars (Erode) Limited (PSEL) continues to derive strength from the experience of promoters in sugar industry, its partially integrated operations, stable operating performance, low debt coverage indicators and various measures undertaken by government to support the sugar industry.
The rating strengths are however tempered by dependence of PSEL's performance on agro-climactic factors, long pending receivables from sale of its surplus power to Tamil Nadu Generation & Distribution Corporation Limited (TANGEDCO) for more than one year leading to moderation in liquidity, inherently cyclical and highly regulated nature of the sugar industry.
Going forward, the ability of PSEL to sustain its operational performance, recover existing dues and streamline its future receivables from TANGENCO shall be the key rating sensitivities.

Outlook: Negative

CARE has revised the outlook from 'Stable' to 'Negative'. There were long pending receivables from TANGEDCO which have been outstanding for more than one year as it is facing a financial crisis. PSEL is continuing to sell power to this entity although payments are not being received on time. As indicated by the management, the dues from TANGEDCO are expected to be received shortly. CARE would continue to periodically monitor the receivables of PSEL and the outlook may be revised to 'Stable' if PSEL is able to recover existing dues, collect future receipts without undue delay resulting in improvement of its liquidity position and operating cashflow.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & management

The flagship company of the group to which PSEL belongs is Seshasayee Paper & Boards Limited [SPBL, rated CARE A+; Positive/ CARE A1+].The promoters of the group have over five decades of experience in industries such as paper & paper products, sugar, chemicals, project consultancy etc. The group has also been operational in the sugar industry for more than three decades and has, over the time, acquired significant experience in managing the cyclicality of sugar industry and various other industry challenges.

Partially integrated operations

PSEL operations are partially integrated with a 19 MW co-generation plant. Additionally the company derives income from sale of bagasse (largely to SPBL for paper manufacturing) and molasses. However, the company presently does not have a distillery unit to produce ethanol.

Stable performance and capital structure

The total operating income (TOI) of PSEL during FY19 was Rs. 187.72 crore as compared to Rs. 197.85 crore during FY18. Sugar prices have declined on account of the supply glut in the industry. The FRP for sugarcane crop has increased over the last few years while the average sugar prices have moved downwards thereby affecting profitability of sugar companies.

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

During FY19, PSEL has completely repaid its long term loans and primarily depends on working capital borrowings for its operations. Overall Gearing as on March 31, 2019 was 0.12x (P.Y. 0.03x). Outstanding borrowings of Rs. 34.87 crore as on March 31, 2019 was on account of working capital borrowings. Capital structure is expected to remain comfortable going forward with no significant capex planned in near future.

Government initiatives undertaken to support sugar industry
The Government of India has recently taken some steps to provide impetus to the sugar industry. It recently announced a Rs 6268 crore sugar export subsidy scheme to enable exports. The Cabinet Committee on Economic Affairs (CCEA) also revised the prices of ethanol for the supply year December 2019-November 2020. The primary aim behind the move is to divert sugar towards production of ethanol so as to reduce the supply glut of sugar in the country and to achieve the target of 10% blending of ethanol with petrol set for the Ethanol Blended Programme (EBP).

Key Rating Weaknesses
Long pending receivables from TANGEDCO
PSEL's trade receivables also increased to Rs. 38.06 crore as on March 31, 2019 from Rs. 18.39 crore as on March 31, 2018. The above receivables are pending for more than one year from TANGEDCO. The entity is currently in a financial crisis and its debt levels have also been mounting. Since PSEL has a long term PPA with TANGEDCO, it is continuing to sell power to the entity despite overdues. There have been delays in realization of tariffs from TANGEDCO and PSEL is in various stages of discussion with government officials to recover these dues.

Cyclical and 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.

Agro-climatic risk
The sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro climatic risks. Climatic conditions, more specifically, the monsoon influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels. Also, the degree of dispersion of monsoon precipitation across the sugar-growing areas also leads to fluctuating trends in sugar production in different regions.

Liquidity: Stretched
Liquidity of the company has become stretched due to delay in collection from TANGEDCO. Further, working capital requirements also increased in order to pay the cane arrears. Average maximum utilization of working capital limits stood at 88% during last 12 months ended August 31, 2019. Cash accruals generated is expected to be sufficient to meet the term loan repayment obligations for FY20.

Analytical approach: Standalone

Applicable Criteria
CARE's Policy on Default Recognition
CARE's methodology for Short-term Instruments
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company
Incorporated in 1996, Ponni Sugars (Erode) Ltd. (PSEL) is engaged into sugar manufacturing and operates a sugar mill at Erode, Tamil Nadu with capacity of 3500 TCD. The mill was originally established in 1984 under another group company Ponni Sugars & Chemicals Ltd and was later demerged to PSEL in 2001.
PSEL is a part of the ESVIN group. Its flagship company - Seshasayee Paper & Board Ltd [SPBL; rated CARE A+: Positive/CARE A1+ is one of the leading integrated pulp and paper manufacturer. The group also has interests in engineering consultancy, battery manufacturing and technology research through various group entities.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	197.85	187.72
PBILDT	22.27	22.49
PAT	3.34	8.43
Overall gearing (times)	0.03	0.12
Interest coverage (times)	11.3	6.48

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-Term Loan	-	-	May-2022	9.06	CARE BBB; Negative
Fund-based - LT-Cash Credit	-	-	-	40.00	CARE BBB; Negative
Fund-based/Non-fund-based-LT/ST	-	-	-	10.00	CARE BBB; Negative / CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	1.50	CARE A3+

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-Term Loan	LT	9.06	CARE BBB; Negative	-	1)CARE BBB; Stable (06-Nov-18)	1)CARE BBB; Stable (24-Nov-17)	1)CARE BBB- (12-Oct-16) 2)CARE BBB- (12-Jul-16)
2.	Fund-based - LT-Cash Credit	LT	40.00	CARE BBB; Negative	-	1)CARE BBB; Stable (06-Nov-18)	1)CARE BBB; Stable (24-Nov-17)	1)CARE BBB- (12-Oct-16) 2)CARE BBB- (12-Jul-16)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE BBB; Negative / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (06-Nov-18)	1)CARE BBB; Stable / CARE A3+ (24-Nov-17)	1)CARE BBB- / CARE A3 (12-Oct-16) 2)CARE BBB- / CARE A3 (12-Jul-16)
4.	Non-fund-based - ST-BG/LC	ST	1.50	CARE A3+	-	1)CARE A3+ (06-Nov-18)	1)CARE A3+ (24-Nov-17)	1)CARE A3 (12-Oct-16) 2)CARE A3 (12-Jul-16)

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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