

Ponni Sugars (Erode) Limited

November 06, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Fund Based Bank Facilities (Term Loan)	2.31 (8.62)	CARE BBB; Stable (CARE Triple B Stable)	Reaffirmed
Long Term Fund Based Bank Facilities (Cash Credit)	30.00 (30.00)	CARE BBB; Stable (CARE Triple B Stable)	
Long- term/Short-term Fund Based/Non-Fund based bank facilities	10.00 (10.00)	CARE BBB; Stable / CARE A3+ (CARE Triple B Stable/ CARE A3 Plus)	
Short-term bank facilities (Non-Fund Based)	21.50 (21.50)	CARE A3+ (CARE A3 Plus)	
Total	63.81 (Rupees Sixty Three crore and Eighty One lakhs only)		

Details of facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The rating continues to factors in the experience of promoters in sugar industry, its partially integrated operations, healthy capital structure, and various measures provided by government to support the industry.

The rating strengths are however constrained by dependence of PSEL's performance on vagaries of monsoon, working capital intensive nature of operations, inherently cyclical and highly regulated nature of the sugar industry.

Going forward, the ability of PSEL to sustain its operational performance and realize its receivables from TANGENCO in a timely manner will be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters & management

The promoters of the company – the ESVIN group – have over five decades of experience in fields such as paper & paper products, sugar, chemicals, project consultancy etc. The group has been operational in the sugar industry for more than three decades and has, over the time, acquired significant experience in managing the cyclicity 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.

Robust capital structure

PSEL has maintained healthy capital structure with gearing coming down from 0.19x in FY17 to 0.03x in FY18 (refers to the period April 01 to March 31). Working capital cycle reduced considerably to 70 days in FY18 as compared to 90 days in FY17. The company also benefitted from loan under "Scheme of Extending Financial Assistance to Sugar Undertakings" (SEFASU) in FY14 which allows interest subvention of up to 12%.

Revision in power tariff and timely realization of tariffs:

Cogeneration unit supplies excess power generated to TANGENDCO. Power tariff for the same are revised on a regular basis by Tamil Nadu Electricity Regulatory Commission. The company has received the dues from TANGEDCO up to January 2018. The company has executed long term power purchase agreement which is valid till FY2032 which giving fair revenue visibility for the company.

Key Rating Weaknesses

Decline in sugar prices

Sugar prices have declined on account of the supply glut in the industry. According to ISMA (Indian Sugar Mills Association) the production is expected to be about 322.5 lakh MT in the country which is higher than the expected off-take of 250 lakh tons. This has resulted in decline in prices compared to that of last sugar season. Further the production is expected to be around 350 lakh MT in SS2018-19 considering the increase in area of sugar grown.

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

Decline in revenue:

The revenue declined on account of decline in sugar prices because of the oversupply of sugar in the market leading to crash in sugar prices. The situation was further aggravated by the low cane availability in the catchment area of PSEL which resulted in lower crushing and lower sugar production which led to decline in sales.

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. In FY18, Tamil Nadu Government has done away with SAP and the company settled the difference between the SAP and FRP for the previous years in FY18.

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 monsoons 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.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-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+: Stable/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)	FY17 (A)	FY18 (A)
Total operating income	263.81	197.85
PBILDT	39.01	22.27
PAT	15.92	3.34
Overall gearing (times)	0.19	0.03
Interest coverage (times)	8.21	11.3

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for 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-Term Loan	-	-	January 2019	2.31	CARE BBB; Stable
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	10.00	CARE BBB; Stable / CARE A3+
Non-fund-based - ST-BG/LC	-	-	-	21.50	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 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-Term Loan	LT	2.31	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Nov-17)	1)CARE BBB- (12-Oct-16) 2)CARE BBB- (12-Jul-16)	1)CARE BBB- (15-Jul-15)
2.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB; Stable	-	1)CARE BBB; Stable (24-Nov-17)	1)CARE BBB- (12-Oct-16) 2)CARE BBB- (12-Jul-16)	1)CARE BBB- (15-Jul-15)
3.	Fund-based/Non-fund-based-LT/ST	LT/ST	10.00	CARE BBB; Stable / CARE A3+	-	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)	1)CARE BBB- / CARE A3 (15-Jul-15)
4.	Non-fund-based - ST-BG/LC	ST	21.50	CARE A3+	-	1)CARE A3+ (24-Nov-17)	1)CARE A3 (12-Oct-16) 2)CARE A3 (12-Jul-16)	1)CARE A3 (15-Jul-15)

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CIN - L67190MH1993PLC071691