

Ponni Sugars (Erode) Ltd

November 24, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Fund Based Bank Facilities (Term Loan)	8.62 (51.06)	CARE BBB; Stable (Triple B; Outlook Stable)	Revised from CARE BBB-; Stable (CARE BBB Minus; Outlook: Stable)
Long Term Fund Based Bank Facilities (Cash Credit)	30.00 (30.00)	CARE BBB; Stable (Triple B; Outlook Stable)	Revised from CARE BBB-; Stable (CARE BBB Minus; Outlook: Stable)
Long- term/Short-term Fund Based/Non-Fund based bank facilities	10.00 (10.00)	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ CARE A3 Plus)	Revised from CARE BBB-; Stable/CARE A3 (CARE BBB Minus; Outlook: Stable/ A Three)
Short-term bank facilities (Non-Fund Based)	21.50 (21.50)	CARE A3+ (A3 Plus)	Revised from CARE A3 (A Three)
Total	70.12 (Rs. Seventy Crore and Twelve Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating revision takes into consideration healthy growth in revenue during FY17 (refers to the period April 01 to March 31) and H1FY18 backed by higher sugar volumes and power sales, coupled with improved profitability resulting into improved debt service coverage indicators buoyed by the strong rebound in sugar prices. The revision also takes into account improvement in the company's capital structure due to partial prepayment of term loans along with scheduled repayment.

The rating continues to factors in the experience of promoters in sugar industry, its partially integrated operations, healthy capital structure, and various supportive 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 and inherently cyclical and highly regulated nature of the sugar industry.

Going forward, 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.

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

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.

Improvement in operational performance

During FY17, total operating income of the company registered 48% y-o-y growth coupled with the PBILD margin improving from 1.75% in FY16 to 15.69% in FY17. The growth was primarily driven by higher sugar volumes and power sales and improvement in sugar prices. The cogeneration unit supplies excess power generated to TANGENDCO. Power tariff for the same has been revised upwards which also helped in improved performance. The performance was sustained even during H1FY18.

Comfortable capital structure

PSEL has maintained healthy capital structure with overall gearing improving to 0.36x as on March 31st, 2017 as compared to 0.63x as on March 31st, 2016. Working capital cycle reduced considerably to 94 days in FY17 as compared to 124 days in FY16. 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%. The loan helped PSEL curtail its working capital borrowings. Company has further prepaid majority of the term loan in October 2017 which along with scheduled repayment has led to further improvement in capital structure.

Domestic Industry Prospects

India's sugar production estimate for the season SS17 (refers to the October to September sugar season) is about 203 Lakh MT, a decline of 19.12% over production last season. The estimated closing balance at the close of SS17 is approximately 45 Lakh MT which amounts to about 18.75% of the estimated consumption during the same period. The closing stock has been the lowest in previous sugar seasons in India. India's sugar production is estimated to rise 24 per cent to 251 Lakh MT in SS18 on account of higher sugarcane area, according to industry body ISMA. Further, considering permission for import of raw sugar, the carry over stock will be more or same like last year.

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.

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 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 Tons of Cane per Day (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)	FY16 (A)	FY17 (A)
Total operating income	169.98	251.74
PBILDT	2.98	39.51
PAT	1.90	15.19
Overall gearing (times)	0.63	0.36
Interest coverage (times)	0.51	8.32

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

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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	8.62	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	8.62	CARE BBB; Stable	-	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-(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- / 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 (12-Oct-16) 2)CARE A3 (12-Jul-16)	1)CARE A3 (15-Jul-15)	-

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