

The Ugar Sugar Works Limited

November 08, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Remarks
Fixed Deposit programme	30.00	CARE BBB- (FD) / Stable (Triple B Minus (Fixed Deposit), Outlook; Stable)	Assigned
Total	30.00 (Thirty Crore Only)		

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of The Ugar Sugar Works Limited (USWL) derives strength from the long track record of over seven decades in the sugar industry, Fully integrated nature of the sugar mill operations financial risk profile marked by improvement in profitability margins along with moderate gearing & debt coverage indicators for the year ended FY17 (refers to the period from April 1 to March 31)

The rating strengths are however constrained on account of working capital intensive nature of operations along with presence in highly cyclical and seasonal sugar industry.

The ability of USWL to source adequate quantity of cane going ahead at reasonable prices thereby ensuring adequate crushing and maintaining operating profitability are the key rating sensitivities

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management and long standing track record of over seven decades

The Ugar Sugar Works Limited (USWL) was promoted by Late Mr. V. S. Shirgaokar in April 1939 (founder Chairman) to undertake sugar and sugar related production. Presently, the Company is spearheaded by Mr. Rajendra V. Shirgaokar (Chairman) aged 80 years working with company since last 41 years. He graduated with B.Sc. (Honours) and B.Sc. in Chemical Engineering from the London University. He has been instrumental in developing the Distillery and the IML section of the Ugar Sugar Works Limited.

Large scale and fully integrated nature of business model of sugar plant resulting in some degree of de-risking of core sugar business

USWL with an installed cane crushing capacity of 16,500 tones of cane crushed per day (TCD), distillery operations of 75 kilo litre per day (KLPD) and a co-generation unit of 44 Mega-watt (MW) is a large sized player in the sugar industry. The fully integrated nature of facility of USWL enables diversification of revenue stream and better the company's ability to absorb the fluctuations in the prices of raw material (sugarcane), finished goods and cyclicity, inherent to the sugar industry.

Cordial relations with the local populace leading to adequate procurement of cane and presence in a high recovery zone along with special Research and development department on sugarcane

The sugar plant of USWL is located in the sugarcane cultivation area in Ugar-Khurd and Jewargi, Karnataka. The command area of USWL comprises of over 80 villages with total land under sugarcane cultivation to the tune of about 18,000 hectares (total command area is 30,000 hectare), translating into availability of nearly 15 lakh MT of sugarcane for SS 2016-17 (average yield of 95MT/hectare as indicated by management).

Financial risk profile marked by improved profitability and moderate leveraged capital structure

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

The total operating income (TOI) of the USWL registered a y-o-y de-growth of 28% during FY17 to Rs.589.82 crore.. The PBILDT margins of the USWL improved by 416 bps to 10.93% during FY17 led by decline in the raw-material cost. Higher interest cost restricted the corresponding improvement in the profit before tax (PBT) and USWL reported PBT of Rs.24.27 crore during FY17 as against Rs.14.82 crore during FY16. USWL reported PAT of Rs.23.43 crore during FY17 as against PAT of Rs.11.28 crore during FY16.

The total debt of USWL increased to Rs.363.58 crore as on March 31, 2017 as against debt of Rs.278.42 crore as on March 31, 2016 on account of the high reliance on external fund based working capital bank borrowing due to increase in inventory storage on expectation of increase sugar price in future led to highly leveraged capital structure marked by debt to equity and overall gearing of 0.78x and 3.18x respectively as on March 31, 2017 vis-à-vis 1.35 and 3.07 Respectively as on March 31, 2016

Key Rating Weakness:

Cyclical and agro-climatic risk associated with the sugar industry

Sugarcane is the key raw material used for the manufacture of sugar and sugar-related products. The availability and yield of sugarcane depends on factors like rainfall, temperature and soil conditions, demand-supply dynamics, government policies etc. The production of sugarcane and hence sugar is cyclical in nature, wherein production of sugarcane is on an uptrend for two years and then declines over the next two years, before trending up again. Reduced quantum of sugar cane production results in shortage in sugar production with increase in sugar prices

Working capital intensive nature of operations

The operative cycle of the USWL deteriorated to 258 days during FY17 from 131 days during FY16. The stretching of operating cycle was largely on account of the hoarding of the finished goods inventories (largely sugar stock). The average utilization of the fund based working capital limits remained in the range of 60-65% during the last 12 month ended July 2017

Analytical Approach followed: Standalone

Applicable Criteria

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

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

[CARE's methodology for manufacturing companies](#)

[Financial Ratios-Non Financial Sectors](#)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	829.31	589.82
PBILDT	56.14	64.46
PAT	11.28	23.43
Overall gearing (times)	3.07	3.18
Interest coverage (times)	1.95	2.12

About the Entity

The Ugar Sugar Works Limited (USWL) was incorporated by Late Shri V S Shirgoakar in April 1st, 1939 and it is one of the oldest sugar mills in India. The first crushing season of the sugar factory was conducted in Sugar Season (SS) 1942-43 with an installed capacity of 500 TCD. Presently the company has total capacity of 16500 TCD. Currently the company is managed by Mr. Rajendra Shirgoakar Aged-80 years as a Chairman.

The company has two fully integrated sugar plants which is located in village Ugarkhurd, Karnataka and Jewargi, Karnataka. During sugar season (SS) 2016-17, USWL crushed 8.13lakh of cane as compared to 10.79 lakh of cane during SS 2015-16. Further the company undertook erection of a distillery unit of 45 Liters Per Day (KLPD) in the year 1962-63, which commenced commercial operations from October 1962. The company further diversified and set up a first-in-its-kind-in India Co-Generation Power Plant of 44 MW at Ugar –Khurd Plant, Karnataka in the 1992-93. Later on USWL set up 15 MW cogeneration power plant at Jewargi in 2010

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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
Fixed Deposit	-	-	-	30.00	CARE BBB- (FD); 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 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.	Fixed Deposit	LT	30.00	CARE BBB- (FD); Stable	-	-	-	-

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