January 30, 2023

Mawana Sugars Limited: Ratings reaffirmed for Bank Facilities; issuer rating withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Fund based – Working capital facilities	300.00	350.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
Long term/Short term – Fund based – Proposed working capital facilities	50.00	-	-
Issuer rating	-	-	[ICRA]BBB (Stable); reaffirmed and withdrawn
Total	**350.00**	**350.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Mawana Sugars Limited's (MSL or the company) long and established track record in the sugar industry, the comfortable debt protection metrics and an adequate liquidity position. The company also benefits from its forward-integrated sugar plant, comprising a 120-kilolitres-per-day (KLPD) distillery and 53.5-mega-watt (MW) co-generation capacities, which provide alternative revenue streams and reduce the impact of the cyclicality associated with the sugar business to some extent. The company has reported operating loss in H1 FY2023 mainly on account of an increase in cane prices along with the seasonality attached with the sugar industry. Nonetheless, ICRA expects the full-year margins to be lower by 100 bps compared to FY2022. In line with the moderation in profitability, the coverage indicators might also moderate in FY2023, though are expected to remain at comfortable levels. Also, the company's capital structure is expected to remain comfortable owing to the healthy net worth base.

The ratings, however, are constrained by the company's moderate return indicators and the high working capital intensity during the peak season as witnessed in other sugar companies. The ratings also consider other constraining factors such as the inherent cyclicality in the sugar industry, the agro-climactic risks related to cane production and the Central Government's policies on sugar trade and pricing of cane, sugar and ethanol. ICRA also notes that the company had recognised ~Rs. 442.00 crore under contingent liabilities as on March 31, 2022, pertaining to the demand of interest on delayed payments of cane dues. While the management is of the view that the interest has been recognised as a conservative accounting principle and is usually waived off by the authorities, any potential crystallisation of the contingent liability remains an event risk.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that MSL will continue to maintain its revenue and comfortable debt coverage metrics, supported by its forward-integrated operations and adequate liquidity position.

ICRA has withdrawn the rating assigned to the Issuer Ratings of Mawana Sugars Limited at the request of the company and in accordance with ICRA's policy on withdrawal.

Key rating drivers and their description

Credit strengths

Established track record in sugar industry - The company has a long track record in the sugar industry spanning more than three decades. The company's board comprises qualified individuals with significant experience in the industry.

Integrated sugar operations - The company benefits from its forward-integrated sugar plant, comprising a 120-KLPD distillery and 53.5 MW co-generation capacities. The ethanol produced in the distillery is procured by oil marketing companies (OMCs) at remunerative rates (Rs. 60.40/litre for B-heavy ethanol) decided by the Government and ~30-35% of the total power units generated through the co-generation plant are exported to Uttar Pradesh Power Corporation Limited (UPPCL). The revenue from the distillery unit was Rs. 217.39 crore and that from the cogeneration unit was Rs. 20.87 crore in FY2022. This provides alternative revenue streams and shields its profitability, to some extent, from the cyclicality in the sugar business.

Comfortable coverage and debt protection metrics – The company's debt metrics remain comfortable with interest coverage ratio of 4.09 times, TOL/TNW of 1.66 times and DSCR of 1.83 times in FY2022. The company has reported an operating loss in H1 FY2023 mainly on account of an increase in cane prices along with the seasonality attached with the sugar industry. Accordingly, the full-year margins are expected to be lower by ~100 bps in FY2023 compared to FY2022. In line with the moderation in profitability, the coverage indicators are likely to moderate in FY2023, though they are expected to remain comfortable with an estimated interest coverage of 3.2-3.4 times. Also, the company's capital structure is expected to remain comfortable owing to the healthy net worth base and the absence of any major debt-funded capex.

Credit challenges

Moderate return indicators and high working capital intensity during peak season - The company's profitability metrics are average, as indicated by the operating profit margin of 7.12% in FY2022, which improved from 6.64% in FY2021. The company's RoCE is also expected to stay at average levels in the range of 7.8-9% over FY2023-FY2025 owing to moderate profitability. Further, the company's working capital intensity remains elevated because of the high sugar inventory during the peak season and faster settlement of cane dues.

Exposure to agro-climatic risks and cyclical trends in sugar business - Being an agri-commodity, the sugarcane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, sugar prices derive support from the minimum selling price (MSP) for sugar being set by the Central Government since June 2018. Over the long term, higher ethanol production with increased usage of B-heavy molasses and direct sugarcane juice is expected to help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Vulnerability to Government/regulatory policies - The sugar industry is highly regulated, with various Government Acts governing virtually all aspects of the business, such as the availability and pricing of sugarcane, sugar trade and by-product pricing. Thus, the company's operations remain vulnerable to any unfavourable changes in Government policies. Typically, the profitability of sugar entities is driven by sugar realisations and cane procurement costs. While sugar realisations are mainly market-driven, subject to floor price levels, the Government fixes the fair and remunerative price (FRP)/state-administered price (SAP) for cane. Thus, any adverse movements in sugarcane pricing may impact the contribution margins and, hence, the profitability of the sugar mills.

Environmental and Social Risks

Environmental considerations: Sugar entities like MSL are directly exposed to climate risks, which affect sugarcane production and yield. Further, excessive or deficient rainfall affects cane availability. However, the company's sugar facilities are in Meerut, UP, with adequate availability of cane, thereby mitigating the climatic risks to a certain extent. MSL is also exposed to the risks arising from tightening regulations on environment and safety. As per the disclosures by MSL, it takes adequate measures and has the required environmental clearance from the UP Pollution Control Board.

Social considerations: The worldwide societal trends towards a shift to less sugar-intensive food products considering the health issues related to high sugar consumption could structurally reduce the demand for sugar products. However, such change in consumer behaviour or any other driver of change is expected to be relatively slow paced. Therefore, while MSL remains exposed to the aforementioned social risk, it is not likely to materially affect its credit profile in the medium term. Moreover, MSL depends on human capital; hence, retaining human capital and maintaining healthy employee relations and a supplier ecosystem remain essential for the disruption-free operations of the entity.

Liquidity position: Adequate

MSL's liquidity position is adequate; the company's annual cash flow from operations is expected to be comfortable against the debt repayment obligations (~Rs. 32-34.00 crore over FY2023-FY2024). Further, the company's free cash and bank balances stood at ~Rs. 21.00 crore as on September 30, 2022, with no major capex plans in H2 FY2023 and FY2024. Notwithstanding this, over the 15-month period from October 2021 to December 2022, the company's average working capital limit utilisation remained moderately high at ~63% against the sanctioned limits. Also, as any other typical sugar mill, the company holds substantial year-end sugar inventory, and its liquidation at remunerative pricing remains vital as far as the liquidity position is concerned.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company is able to demonstrate an improvement in its profitability while maintaining the scale of operations, thereby improving the key credit metrics. An improvement in the working capital cycle and liquidity position could also favour an upgrade.

Negative factors – The ratings could be downgraded if there is a significant deterioration in scale and profitability, leading to a deterioration in the key credit metrics, such as an interest coverage of 2.5 times or below on a sustained basis. Any significant crystallisation of the contingent liabilities, which mainly include interest on late payment of cane dues, may also weigh on the ratings. Any significant debt-funded capex or a stretch in working capital cycle adversely impacting the liquidity profile of the company will also affect the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry Policy on Withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financials of Mawana Sugars Limited, its subsidiaries and associate concern (equity method). The list of the entities is given in Annexure-2

About the company

Mawana Sugars Limited (MSL), formerly known as Siel Limited, 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. MSL was merged with Siel Ltd. (a Siddharth Shriram Group company involved in the manufacture of chlor alkali chemicals), as per the order of the High Court of Delhi on September 11, 2007 (the merger was effective w.e.f. October 1, 2006.) Subsequently, the name of the company was changed to Mawana Sugars Limited with effect from January 4, 2008.

The company has two operating sugar plants, viz., Mawana Sugar Works (MSW) and Nanglamal Sugar Complex (NSC), with cane crushing capacities of 13,000 TCD and 6,000 TCD, respectively. These plants are in Meerut, western Uttar Pradesh. Both the units have a combined cogeneration capacity of 53.5 MW. The Nanglamal Sugar Complex unit also has a distillery with a capacity of 120 KLPD.

Subsidiaries and associate concerns:

Name of firm/business	Nature of the Firm	Shareholding of MSL		Business Description
		As on March 31, 2022	As on March 31, 2021	
Siel Industrial Estate Limited	Subsidiary	100.00%	100.00%	Non-operational company. Intends to invest in real estate business.
Siel Infrastructure & Estate Developers Private Limited	Subsidiary	100.00%	100.00%	Has invested in Siel Industrial Estate Limited.
Mawana Foods Private Limited	Associate (Rest of the share with Usha International)	33.74%	33.74%	Retail business of sugar, edible oils and soap.

Source: Annual Report

Siel Infrastructure & Estate Developers Private Limited is a systematically important non deposit taking core company and has invested in the equity shares of Siel Industrial Estate Limited which is its associate and also a fellow subsidiary of MSL. Siel Industrial Estate Limited, the investee, intends to invest in the real estate business. Siel Infrastructure & Estate Developers Private Limited is still in the process of planning and charting out its course of action to commence its operations.

Key financial indicators (audited)

Standalone	FY2021	FY2022	H1 FY2023
Operating income	1,469.54	1,478.28	649.59
PAT	73.60	24.90	(42.53)
OPBDIT/OI	6.64%	7.12%	(3.36%)
PAT/OI	5.01%	1.68%	(6.55%)
Total outside liabilities/Tangible net worth (times)	2.62	1.66	1.04
Total debt/OPBDIT (times)	2.84	3.96	-6.49
Interest coverage (times)	2.76	4.09	-1.22

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Jan 30, 2023	Oct 07, 2021	Sep 07, 2021	-	-
1	**Working capital facilities**	Long term/Short term	350.00	--	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-
2	**Proposed working capital facilities**	Long term/Short term	-	--	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-	-

3	Issuer rating	Long term	-	--	[ICRA]BBB (Stable); Withdrawn	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working capital facilities	Simple
Issuer rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Working capital facilities**	NA	NA	NA	350.00	[ICRA]BBB(Stable)/ [ICRA]A3+
NA	**Issuer rating**	NA	NA	NA	-	[ICRA]BBB (Stable); Withdrawn

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis:

Company Name	Ownership	Consolidation Approach
Siel Industrial Estate Limited	100%	Full Consolidation
Siel Infrastructure & Estate Developers Private Limited	100%	Full Consolidation
Mawana Foods Private Limited	33.74%	Equity Method

Source: FY2022 Annual Report

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About ICRA Limited:

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