

February 27, 2023

MRN Canepower and Biorefineries Pvt. Ltd.: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Unallocated Limits	100	[ICRA]B (Stable); assigned
Total	100	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned factors in extensive experience of the promoters of MRN Canepower and Biorefineries Private Limited's (MRNCBPL) in the sugar industry with good local standing and partially forward integrated nature of the plant with 6 MW cogeneration power plant for captive power consumption. Further, the company's working intensity is low with NWC/OI at ~-1% as on Mar 31, 2022, and expected to be lower than ~5% going forward as well, due to low inventory as well as debtor days, resulting from stable demand and realisations. Average sugar realization has been largely stable at Rs ~33.5 per kg over the last 18 months, while gross recovery has improved to ~9.18% in FY2022 from ~8.38% in FY2021 as the operations ramped up, which is expected to improve slightly further in FY2023.

The company has acquired the plant on operating lease for a period of 40 years, with total lease obligations of Rs 405 crore, being largely back-ended. Annual lease obligations are minimal at Rs 1.0-2.5 crore for the first 20 years, which increase to Rs 10.0-22.0 crore for the latter 20 years. MRNCBPL has sought waiver for payment of Rs 20 crore upfront lease payment. However, it has made a security deposit of Rs 5 crore as part of the lease agreement and has done capital expenditure of Rs ~17 crore over FY2021-FY2022 to revive and improve the plant which had been shut down since 2012-2013, being funded by interest bearing advances from group company - Nirani Sugars Ltd (NSL). However, incremental funding requirements are not envisaged as the plant has achieved self-sufficiency in terms of operating cashflows and there will be minimal capital expenditure, as per the management. MRNCBPL has nil external debt.

The assigned ratings are however constrained by moderate scale of operations in the sugar industry with revenues of Rs 156.9 crore in FY2022. Further, it has track record of only a single year of full operations during FY2022, even as crushing levels have ramped up significantly in 9MFY2023. MRNCBPL has an overall weak financial risk profile characterized by relatively lower gross recovery level and weak operating profit margin (OPM) of 7.3% for FY2022. However, coverage indicators are comfortable with interest coverage of 6.1 times and debt/OPBDIT of 1.6 times for FY2022.

ICRA further notes the sustained favourable Government policies such as introduction of the minimum selling price (MSP), interest subvention loans for ethanol capacity creation/ expansion, export subsidy to address the demand-supply situation in the domestic market, are expected to support the company's financial profile. The rating also considers the inherent cyclicity and agro-climatic risks in sugar operations, along with its vulnerability to Government regulations.

The stable outlook reflects ICRA's expectation that the company would be able to ensure adequate cane availability and maintaining its operating profitability with expectations of stable demand for its sugar produced as well as realisations on the same. Stability in sugar realisation in the near term, aided by the ongoing structural changes in the industry, the balanced global demand-supply position and favourable policies will support the rating.

Key rating drivers and their description

Credit strengths

Long operating track record of the Nirani Group in sugar business within Karnataka - MRNCBPL is a part of the Karnataka based MRN/Nirani Group. The promoters have presence in industries such as cement, education, agri-commodities, food and beverages, finance, hospitality and retail. MRN is the largest sugar group in Karnataka and one of the largest sugar producers in the country with a consolidated capacity of over 70,000 TCD. Various of its plants are forward integrated with their respective co-gen and distillery capacities. The promoters have a long-standing experience in the sugar industry and has locational advantages ensuring steady availability of sugarcane. Established relationships with farmers in command areas of the respective units, along with various support initiatives and timely payments, ensures good quality supply.

Healthy ramp up in operations since takeover of operations in FY2021 – Post the takeover of the sugar plant operations by MRNCBPL in FY2021, the sugar cane procurement ramped up in FY2022 to 4.59 lac MT from 1.59 lac MT in FY2021. Gross recovery rate improved to 9.18% in FY2022 (PY: 8.31%) as initial teething issues pertaining to cane procurement and production were gradually resolved since the start of production. While the recovery rates for the region are lower as compared to northern states like UP, and even compared to north Karnataka region, cane availability is for a longer period throughout the year (typically over 180 days). Further, cane procurement costs are also lower as FRP is linked to gross recovery. Further, till mid-Jan, in YTD FY2023, the company has already crushed ~5.2 lakh MT of cane and is expected to close FY2023 with ~6 lakh of cane crushed. Cane procurement has increased substantially in FY2023 despite modest increase in command area due to lower diversion of cane by farmers towards small jaggery plants.

Partially forward-integrated operations with presence of co-generation unit – The company's 6-MW co-generation power plant runs on bagasse, which is a key by-product of cane crushing. The power is entirely utilized for captive consumption, and hence there is only minimal external power purchase requirement, mainly during the off-season. Further, the revenue from sale of molasses supports the company's profitability levels.

Credit challenges

Weak overall financial risk profile with short operating track record – MRNCBPL has been dependent on financial support from Nirani Sugars Ltd, which itself has a leveraged capital structure and weak coverage metrics. Further, notwithstanding the improvement in gross recovery and operating profit margin in FY2022, they remain weak as compared to regional peers, with only moderate improvement expected going forward as well. MRNCBPL has sought waiver for payment of Rs 20 crore upfront lease payment, which is expected to be accepted as per management, but remains a contingent risk if waiver request is not accepted. However, it has made a security deposit of Rs 5 crore as part of the lease agreement and has done capital expenditure of Rs ~17 crore over FY2021-FY2022 to revive and improve the plant which had been shut down since 2012-2013, being funded by interest bearing advances from group company - Nirani Sugars Ltd (NSL), and it has nil external debt.

Risks in regulated industry – MRNCBPL's profitability is vulnerable to the Government's policies and schemes such as creation of buffer stock, sugar and cane pricing, etc. Hence, any material decrease in sugar pricing or lower domestic release quota can have an impact on the company's financials. Nonetheless, the Central and state Government's recent measures supported the financial performance and liquidity of sugar mills.

Agro-climatic risks and cyclical trends in sugar business – Being an agri-commodity, the sugarcane crop depends on climatic conditions and is vulnerable to pests and diseases, which may affect the yield per hectare and the recovery rate. These factors can have a significant impact on the company's profitability. In addition, the cyclicity in sugar production results in a volatility in sugar prices. However, the sharp fluctuations in sugar prices have been curtailed after the introduction of MSP for sugar by the Govt in June 2018. Over the long term, higher ethanol production with increased use of B-heavy molasses and direct sugar juice are expected to help curtail the excess sugar inventory, resulting in lower volatility in sugar prices and in turn, cash flows from the business.

Liquidity position: Stretched

The company had Rs 0.54 crore of unencumbered cash balances as on March 31, 2022 and nil sanctioned fund based working capital facilities. MRNCBPL has nil external debt and annual lease obligation for FY2023-FY2025 is Rs 1 crore, apart from Rs 11.7 crore of liability towards capital expenditure incurred, to be paid out over FY2023-FY2024. Further, MRNCBPL has sought waiver of Rs 20 crore towards first year lease obligation. While, the management is confident of no payout in this regard, this remains a contingent risk. MRNCBPL has been dependent on financial support from Nirani Sugars Ltd, which itself has a leveraged capital structure and weak coverage metrics.

Rating sensitivities

Positive factors – ICRA could upgrade MRNCBPL’s rating in case of improvement in liquidity position, profitability and net worth position on a sustained basis.

Negative factors – Pressure on the rating could emerge if any significant decline in sugar prices or recovery rate, or increase in cane costs, weakens the company’s profitability and debt coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Issuers in the Indian Sugar Industry
Parent/Group Support	NA
Consolidation/Standalone	For arriving at the rating, ICRA has considered the standalone financials of MRNCBPL.

About the company

MRNCBPL operates of a sugar plant, which it acquired in FY2021 for a period of 40 years on operating lease from Pandavapura Sahakara Sakkhare Karkhane Ltd (PSSK). The plant is located in South Karnataka in Pandavapura, Mandya district, near Mysore. The plant had been shut down since 2013 due to operational and financial challenges. Hence, the Government of Karnataka (GoK) had facilitated invitation of tenders for operating the factory on lease. Subsequently, Nirani Sugars Ltd bagged the tender. As of now, it is one of the two plants the MRN Group has in South Karnataka, with rest of the units being in North Karnataka.

Established in 1995 by Mr. Murugesh Rudrappa Nirani (born 18 August 1965), MRN group is a business conglomerate based out of Mudhol, Karnataka. He is an Indian entrepreneur and politician serving as the Minister of Large and Medium Industries of Karnataka from 4 August 2021. He is a third-term Member of the Legislative Assembly (MLA) of Bilgi, Bagalkot and is a minister in the Government of Karnataka. MRN is the biggest sugar group in Karnataka and one of the largest sugar producers in the country. The MRN Group operates nine sugar mills under MRNCBPL, Nirani Sugars Ltd., Shri Sai Priya Sugars Ltd., MRN Cane Power India Ltd., Kedarnath Sugars Ltd., Badami Sugars Ltd. and MRN Sreerama Sugar and Power Pvt Ltd, with a consolidated capacity of over 70,000 TCD.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income (Rs. crore)	45.25	156.89
PAT (Rs. crore)	-30.00	6.90
ROCE (%)	NM	-71.96%
OPBDIT/OI (%)	-66.22%	7.33%
PAT/OI (%)	-66.30%	4.40%
Total outside liabilities/Tangible net worth (times)	-1.92	-2.76
Total debt/OPBDIT (times)	-0.82	1.64
Interest coverage (times)	NM	6.12

Source: Company, ICRA Research

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

NM: Not meaningful

ROCE = PBIT / (Total debt + TNW - CWIP)

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 on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 27, 2023	-	-	-
1	Long Term – Unallocated Limits	Long Term	100	-	[ICRA]B (Stable)	-	-	-

*As on Dec 31, 2022

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term – Unallocated Limits	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-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Long Term – Unallocated Limits	NA	NA	NA	100	[ICRA]B (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis: NA

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