August 24, 2022

NSL Sugars Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based - Term Loans	219.18	123.77	[ICRA]D; reaffirmed
Fund Based - Working Capital Facilities	99.49	0.00	-
Unallocated Limit	0.00	194.90	[ICRA]D; reaffirmed
Total	**318.67**	**318.67**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account continuing delays in the debt servicing obligations owing to the weak liquidity position of NSL Sugars Limited (NSL). ICRA notes that the company's loan restructuring package has been implemented by eight of the nine consortium of lenders, while it is under implementation with one banker. Also, the company has some interest obligation due on the Sugar Development Fund (SDF) loans which remained unpaid as on March 31, 2022 as the company has applied for the restructuring of the loan. ICRA notes that the promoters have infused their contribution of Rs. 45.0 crore in FY2022 as required in the resolution plan. The implementation is expected to be completed during FY2023 itself.

However, ICRA takes note of the company's weak capital structure and debt coverage indicators in the last few years (FY2018-FY2022). Although improved crushing levels, favourable sugar prices and enhanced distillery capacity would improve the scale, profits and in turn the debt metrics following the successful implementation of the restructuring plan, the credit profile would still be weak.

The rating is also constrained by the risks associated with the inherent cyclicality in the sugar business, the agro-climatic conditions related to cane production, the Government's policies on sugar trade, the pricing and offtake of cogeneration power and ethanol and the counterparty credit risk associated with the sale of power to the utilities in Karnataka and Maharashtra. Further, the tenure mismatch between the power purchase agreement (PPA) of the co-generation units and the debt repayment period (PPA ended in FY2022 for Koppa and Aland while repayment is till FY2027) exposes these co-generation units to demand and tariff risks.

However, ICRA takes note of the significant experience of the promoters in the sugar industry and the forward-integrated operations into co-generation and distillery units, which provide additional revenue stream and cushion the profitability during sugar downturns. Further, NSL's operations are expected to benefit from firm sugar realisations from both the domestic and international markets, healthy export volumes and better distillery performance in the current fiscal.

Key rating drivers and their description

Credit strengths

Profitability expected to recover on successful implementation of restructuring plan – The resolution plan for restructuring the existing loans came into effect from April 1, 2019 (cut-off date), as per the RBI circular on June 17, 2019. NSL's financial profile has improved over the years as is evident from its improving scale of operations which was supported by an increase in cane crushing volumes and end-product realisation. The company was able to reports profits at the net level in the last two years (FY2021 and FY2022). However, ICRA takes note of the company's weak capital structure and debt coverage indicators in the last few years (FY2018-FY2022), which are expected to improve going forward with the successful implementation of the restructuring plan as well as favourable demand prospects for sugar and ethanol.

Forward-integrated operations - NSL's sugar operations, with a capacity of 20,000 TCD, are forward integrated with a 94-MW co-generation unit and a 160-KLPD distillery unit. The company has set up a 100-KLPD distillery at the Jay Mahesh unit which became fully operational from February 2022. The forward-integrated profile of sugar operations cushions the profitability during periods of sugar downturn.

Favourable demand prospects – NSL's operations are expected to benefit from firm sugar realisations from both the domestic and international markets, healthy export volumes and better distillery performance in FY2022 and the current fiscal. From FY2023, the company is expected to divert higher cane to produce ethanol through B-heavy molasses and/or sugarcane juice. NSL's operating margins are expected to be supported by the likely continuation of MSP while market prices are firm. The remunerative prices of ethanol and the industry's focus on diverting excess cane towards ethanol production will improve the domestic demand-supply balance. Further, with the increase in sugar sacrifice towards B-heavy/juice-based ethanol limiting the sugar inventory levels, the overall debt levels are expected to reduce, going forward.

Credit challenges

Delays in debt servicing – ICRA notes that there are continued delays by NSL in meeting its debt servicing obligations on Sugar Development Fund (SDF) loans as per existing repayment schedule. The company had some interest obligation due on the said loan which remained unpaid as on March 31, 2022 as the company has applied for restructuring of the same. However, the company has been timely servicing its debt obligations for the last three months with eight of the nine consortium bankers.

Co-generation unit exposed to demand and tariff risk – There is a tenure mismatch between the power purchase agreement (PPA) of the co-generation units and the debt repayment period as the PPAs for Koppa and Aland already ended in October 2021 while the repayment is till FY2027. This exposes the company to demand and tariff risks. However, the demand for merchant power remains high and the same does not pose any threat to power offtake.

Profitability vulnerable to agro-climatic and regulatory risks – The profitability of the sugar mills remains exposed to the cyclicality of the sugar industry, agro-climatic risks related to cane production, and Government policies related to sugar trade.

Liquidity position: Poor

NSL's liquidity position is poor because of the low profitability and modest free cash flows. However, implementation of the resolution plan by the lenders is expected to improve the liquidity in the medium term.

Rating sensitivities

Positive factors – The rating may be upgraded if the company services the debt obligations in a timely manner on a sustained basis.

Negative factors – Not Applicable.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on Default Recognition Rating Methodology for Entities in the Sugar Industry
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

NSL Sugars Limited (NSL), incorporated in 1999, was promoted by the Nuziveedu Seeds Group. The company manufactures and markets sugar, generates power and produces ethanol. The company has three units - two at Koppa and Aland in Karnataka and the third at Pawarwadi in Maharashtra. NSL has a 6,000-TCD sugar plant along with a 30-MW co-generation plant and a 60-KLPD distillery at Koppa in the Mandya district of Karnataka and a 7,000-TCD sugar plant along with a 34-MW co-generation plant in Aland, Karnataka. Jay Mahesh Sugar Industries Limited (JMSIL) was taken over by NSLSL in FY2012 and amalgamated into NSLSL. Currently, Jay Mahesh unit is operational with a 7,000-TCD sugar unit and a 30-MW cogen unit.

NSL has two subsidiaries, NSL Sugars (Tungabhadra) Ltd, (fully owned) and NSL Krishnaveni Sugars Ltd. The latter is 74% owned by NSL. The Group Holding Company is Mandava Holdings Pvt Ltd.

Key financial indicators

	FY2020 Audited	FY2021 Audited	FY2022 Provisional
Operating income (Rs. crore)	793.4	696.9	1,081.8
PAT (Rs. crore)	-15.5	94.3	54.1
OPBDIT/OI (%)	6.5%	10.8%	7.9%
PAT/OI (%)	-2.0%	13.5%	5.0%
Total outside liabilities/Tangible net worth (times)	26.3	10.0	5.7
Total debt/OPBDIT (times)	19.4	13.2	10.7
Interest coverage (times)	0.9	2.4	3.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year)

Source: NSL Sugars Limited

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 as on Jun 30, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 24, 2022	May 28, 2021	May 29, 2020	-
1	**Fund based Limits – Term Loans**	Long-Term	123.77	123.77	**[ICRA]D**	**[ICRA]D**	**[ICRA]D**	-
2	**Fund based Limits-Working Capital Facilities**	Long-Term	0.00	-	-	**[ICRA]D**	**[ICRA]D**	-
3	**Unallocated Limit**	Long-Term	194.90	-	**[ICRA]D**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund based Limits – Term Loans	Simple
Unallocated Limit	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: www.icra.in

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	Fund based Limits – Term Loans	Jul-2010 to Jun-2017	9.50%	FY2027	123.77	[ICRA]D
NA	Unallocated Limit	NA	NA	NA	194.90	[ICRA]D

Source: NSL Sugars Limited

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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