

April 23, 2024

## Mawana Sugars Limited: Ratings reaffirmed

### 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	350.00	350.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed
<b>Total</b>	<b>350.00</b>	<b>350.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation factors in Mawana Sugars Limited’s (MSL) forward-integrated operations with a scale up in its distillery operations in the past three years along with co-generation that provide alternative revenue streams and act as a cushion against the cyclicity in the sugar business to some extent. ICRA notes that favourable domestic sugar prices and sustained favourable Government policies, such as the introduction of minimum selling price (MSP), interest subvention loans for ethanol capacity creation/expansion, remunerative prices of ethanol and the industry’s focus on diverting excess cane towards ethanol, support the company’s profitability metrics.

The ratings, however, remain constrained by MSL’s moderate debt coverage indicators and the high working capital intensity of its operations with NWC/OI at 33% in FY2023 due to the high inventory holding. The inventory levels are expected to increase further in March 2024 end due to the recent cap on diversion, resulting in higher short-term borrowing for the company. Nevertheless, going forward, the debt coverage indicators are expected to remain moderate, driven by stable operating profits and a modest debt level, supported by ethanol production.

The ratings factor in the vulnerability of MSL’s profitability to the cyclical nature of the sugar industry (though the sharp fall in sugar prices has been curtailed after the introduction of MSP) and the agro-climatic risks related to cane production. Further, the profitability of sugar mills, including MSL, is exposed to the policies of the state government and the Central Government on cane prices, international trade, domestic quota, sugar and ethanol pricing and interest subvention loan for distillery capacity expansion.

The Stable outlook on the rating reflects ICRA’s opinion that MSL will continue to maintain its revenue and profitability, backed by its forward-integrated operations and a comfortable liquidity position.

### Key rating drivers and their description

#### Credit strengths

**Long track record of operations; forward integration cushions sugar cyclicity to some extent** - The company has a long track record in the sugar industry spanning more than three decades with a sugar manufacturing capacity of 19,000-tonne-crushed-per-day (TCD) facility in UP. The plant’s operations are forward-integrated, with a co-generation capacity of 53.5 megawatt (MW) and a distillery capacity of 120 KLPD. The integrated operations provide alternative revenue streams and act as a cushion against the cyclicity associated with the sugar business to some extent.

**Favourable policy framework supports profits and cash accruals** - The Government of India (GoI) has been supporting the sugar industry through various measures, such as continuation of MSP, soft loans for clearing cane dues, interest subvention loans for ethanol capacity creation and expansion and remunerative prices for ethanol, resulting in improved domestic

demand-supply balance. Additionally, the Gol has preponed the ethanol blending programme timeline to 2025 from 2030 for the 20% mandatory blending of ethanol with petrol. Favourable pricing, coupled with a relatively short credit period for ethanol supplies, has supported the profits and cash accruals of various medium to large-sized sugar mills.

### Credit challenges

**High working capital intensity leads to moderate debt coverage indicators** - The seasonality in sugarcane crushing results in a high inventory of finished goods at each fiscal-end, leading to high working capital intensity of operations (NWC/OI of 33% as on March 31, 2023). The company's debt remained at Rs. 383.0 crore as on March 31, 2023, lower than Rs. 416.7 crore as on March 31, 2022 with repayment of long-term loans, resulting in a gearing of 1.0 times as of March 2023 (PY: 1.1 times). The company's debt coverage indicators remained moderate with an interest coverage of 2.8 times (PY: 4.1 times), TD/OPBDITA of 5.0 times (PY: 4.0 times) and TOL/TNW of 1.6 times (PY: 1.7 times) as on March 31, 2023. The inventory levels are expected to increase further in March 2024-end due to the recent cap on diversion, resulting in higher short-term borrowing for the company. Nevertheless, going forward, the debt coverage indicators are expected to remain moderate, driven by stable operating profits and a modest debt level, supported by ethanol production.

**Profitability vulnerable to policy interventions by the Government** - MSL's profitability, along with other sugar mills, continues to be vulnerable to the GoUP and the Central Government's policy on cane prices. Thus, the company's performance can be adversely impacted by a disproportionate increase in cane prices in any particular year. Further, the profitability remains vulnerable to the Government's policies on sugar international trade, domestic quota, sugar MSP, remunerative ethanol prices and interest subvention loan for distillery capacity expansion. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. However, the UP state-advised price (UP-SAP) was revised upwards by Rs. 20/quintal for SY2024, which could limit the profitability. Nevertheless, firm domestic prices and increased contribution from ethanol supplies are likely to offset this risk to some extent for integrated sugar mills.

**Profitability of sugar mills vulnerable to industry cyclicity and agro-climatic risks** - Being an agri-commodity, the sugarcane crop is dependent on climatic conditions and 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. Further, high dependence on a single crop variety may affect the yield and recovery rates. However, MSL has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclicity in sugar production results in a volatility in sugar prices. However, the sharp downfall in sugar prices has been curtailed after the introduction of MSP by the Central Government in June 2018. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice-based ethanol will help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and hence, increase the cash flows from the sugar business.

### 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 UP, having high sugar recovery rates and longer crushing season with adequate availability of cane, thereby mitigating the climatic risks to a certain extent. Nevertheless, the company remains exposed to raw material availability which can be impacted by red rot and unseasonal and heavy rainfall, as was seen in the recent past.

**Social considerations** - The worldwide societal 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 changes in consumer behaviour or any other drivers of change are 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, given the increasing sucrose diversion towards ethanol.

## Liquidity position: Adequate

MSL's liquidity is adequate, with expectation of healthy cash flow from operations due to favourable sugar realisations along with distillery operations and free cash and cash equivalents of Rs. 15 crore as on February-2024. The company also had an average cushion of Rs. 140 crore in its working capital limits in the last 12 months ended March 2024. Its debt repayments (Rs. 4.87 crore in FY2025) are likely to be comfortably met from the expected cash flows.

## Rating sensitivities

**Positive factors**– An upgrade will be backed by a healthy improvement in scale and profitability along with a diversification in revenues, enabling the company to improve its debt coverage metrics and maintain an adequate liquidity position.

**Negative factors**– ICRA could revise the rating downwards if there is any sharp decline in revenues and profitability along with a significant decline in the ethanol business that would weaken the debt coverage metrics. A specific metric driving an unfavourable rating action could be an interest cover of below 2.5 times 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.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Sugar</a>
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-II

## About the company

Mawana Sugars Limited (MSL), formerly known as Siel Limited, was founded by Shriram Enterprises in 1949 and later became an independent entity in 1989 with the restructuring of the erstwhile DCM Group. MSL is now part of the Siddharth Shriram Group.

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 co-generation capacity of 53.5 MW. The Nanglamal Sugar Complex unit also has a distillery with a capacity of 120 KLPD.

## Key financial indicators (audited)

Standalone	FY2022	FY2023	9M FY2024
Operating income	1,478.28	1,481.82	1,032.91
PAT	24.90	13.46	(9.21)
OPBDIT/OI	7.12%	5.23%	0.89%
PAT/OI	1.68%	0.91%	(0.89%)
Total outside liabilities/Tangible net worth (times)	1.66	1.61	-
Total debt/OPBDIT (times)	3.96	4.95	-
Interest coverage (times)	4.09	2.78	0.46

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				April 23, 2024	-	Jan 30, 2023	Oct 07, 2021	Sep 07, 2021
<b>1 Working capital facilities</b>	Long term/Short term	350.00	--	[ICRA]BBB (Stable)/[ICRA]A3+	-	[ICRA]BBB (Stable)/[ICRA]A3+	[ICRA]BBB (Stable)/[ICRA]A3+	-
<b>2 Proposed working capital facilities</b>	Long term/Short term	-	--	-	-	-	[ICRA]BBB (Stable)/[ICRA]A3+	-
<b>3 Issuer rating</b>	Long term	-	--	-	-	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
<b>Working capital facilities</b>	Simple

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+

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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