March 20, 2023

Harinagar Sugar Mills Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	120.86	100.53	[ICRA]A- (Stable); reaffirmed
Cash credit	302.00	325.00	[ICRA]A- (Stable); reaffirmed
Non-fund based limits	15.00	10.00	[ICRA]A2+; reaffirmed
Unallocated limits	105.17	107.50	[ICRA]A- (Stable)/[ICRA]A2+; reaffirmed
Total	**543.03**	**543.03**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Harinagar Sugar Mills Limited's (HSML) forward-integrated operations into co-generation and distillery, which provide alternative revenue streams and reduce the impact of the cyclicality associated with the sugar business to some extent. ICRA notes that favourable international sugar prices and a sustained favourable Government policy framework, such as introduction of the minimum selling price (MSP), interest subvention loans for ethanol capacity creation/expansion, export policy to address the demand-supply situation in the domestic market, support the company's profitability metrics. Moreover, the ratings factor in the benefits of being located in eastern India, a sugar-deficit zone, because of which the company faces limited competition from the nearby sugar factories. Cane pricing in Bihar is decided by sugar companies in consultation with the state government, causing the cane prices to remain below the state-advised price (SAP) in Uttar Pradesh.

HSML's ratings are constrained by the inherent cyclicality and agro-climatic risks in sugar operations and the vulnerability to Government regulations. The crushing levels in SY2022 and SY2023, though improved from SY2021 levels, continue to be moderate. The ratings factor in HSML's moderate debt coverage indicators and its high working capital intensity of operations with NWC/OI at 76% in FY2022, up from 52% in FY2021 due to higher inventory holding. Nevertheless, going forward, the debt coverage indicators are expected to improve, driven by stable operating profits, along with a moderate debt level with reduced inventory holding, supported by higher ethanol production.

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

Key rating drivers and their description

Credit strengths

Long track record of operations; forward integration cushions sugar cyclicality to some extent – HSML has a long operational track record of over 85 years in sugar manufacturing with an 11,500-tonne-crushed-per-day (TCD) facility in Bihar. The plant's operations are forward-integrated into the power and alcohol businesses, with a co-generation capacity of 14.5 mega-watt (MW) and a distillery capacity of 140 KLPD. The company has invested to increase its distillery capacity to 165 KLPD and is likely to achieve the commercialisation of the expanded facility by October 2023. The integrated operations provide alternative revenue options and cushion its profitability against the cyclicality in the sugar business.

Locational benefit of being in sugar-deficit state; sugar companies fix cane prices with state government – HSML's sugar mills are in Bihar, a sugar-deficit state, and thus face limited competition from the nearby sugar factories. Moreover, in Bihar, the sugar factories (in consultation with the state government) fix the cane pricing for the sugar season, which is applicable for all sugar factories in the state. This pricing mechanism provides relief to sugar companies against the SAP mechanism followed in UP, wherein only the state government decides the cane pricing, which is generally higher than the company's cane costs. However, historically, any change in the fair and remunerative price (FRP) or SAP in UP has led to a revision in cane prices in Bihar.

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 GoI has preponed the ethanol blending programme timeline to 2025 from 2030 for 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 76% in FY2022). The company's debt remained at Rs. 397.4 crore as on March 31, 2022, increasing slightly from Rs. 378.7 crore as on March 31, 2021, resulting in a gearing of 1.2 times as of March 2022 (PY: 1.2 times). The company's debt coverage indicators remained in line with the previous fiscal and was moderate with an interest coverage of 3.1 times, TD/OPBDITA of 5.6 times and TOL/TNW of 1.5 times as on March 31, 2022. Nevertheless, going forward, the debt coverage indicators are expected to improve, driven by comfortable operating margins and a decline in debt and inventory levels, supported by increased ethanol production.

Risks associated with operating in a regulated industry – HSML's profitability is vulnerable to the Government's policies and schemes such as creation of buffer stock, export subsidies, mandatory blending of ethanol and its pricing, sugar pricing, etc. Hence, cessation of any subsidies/schemes or any material decrease in sugar or ethanol pricing would have an impact on the company's financials. Nonetheless, the recent measures taken by the Central and the state government supported the financial performance and liquidity of sugar mills.

Sugar mills vulnerable to industry cyclicality and agro-climatic risks – Being an agri-commodity, sugarcane is dependent on weather conditions and is vulnerable to pests and diseases that may affect the yield per hectare and recovery rate. These factors can have a significant impact on the company's profitability. HSML recorded a sharp 25% reduction in cane crushing in SY2021 after the floods in Bihar that contracted the sugar production volume by 34%. Though the crushing levels increased in SY2022 and SY2023, it continued to be moderate. Additionally, the cyclicality in sugar production results in significant volatility in prices. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice will likely curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Liquidity position: Adequate

HSML's liquidity is adequate, with an expectation of healthy cash flow from operations due to favourable sugar realisations, increased diversion towards ethanol from B-heavy molasses, along with cash and cash equivalents of Rs. 8.3 crore as on March 31, 2022. Its debt repayments (Rs. 33.7 crore in FY2023 and Rs. 34.8 crore in FY2024) are likely to be comfortably met from the expected cash accruals.

Rating sensitivities

Positive factors – Higher-than-anticipated cane crushing levels and recovery rate, along with a sustained period of firm sugar prices, driven by favourable demand-supply dynamics and the consequent improvement in profitability and debt coverage metrics, on a sustained basis, may trigger an upgrade. An interest coverage ratio above 5 times, on a consistent basis, may also lead to an upgrade.

Negative factors – Pressure on HSML's ratings could arise in case of a significant decline in sugar prices or recovery rate. Increase in cane costs, resulting in a deterioration of its profitability and debt coverage metrics, or interest coverage ratio below 3 times, on a sustained basis, may also trigger a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

About the company

HSML, incorporated in 1933 by the Late Narayanlal B. Pittie, is a closely-held company with most of the shareholding with the Pittie family. The manufacturing facility is in the west Champaran region of Bihar. HSML started with an initial crushing capacity of 600 TCD and gradually increased it to 11,500 TCD. The company operates a 120-KLPD (increased from 50 KLPD in December 2018) distillery unit, and a 14.5-MW co-generation unit. Further, the capacity of its distillery unit increased to 140 KLPD in SY2022. HSML has a wholly-owned subsidiary – Shangrila Food Products Ltd.- earlier involved in biscuit manufacturing on a job-work basis for Britannia Industries Limited. However, the contract with Britannia was terminated from November 2019.

In FY2022, the company reported a net profit of Rs. 11.9 crore on an operating income (OI) of Rs. 595.0 crore compared with a net profit of Rs. 9.8 crore on an OI of Rs. 789.9 crore in the previous year.

Key financial indicators (audited)

	FY2021	FY2022
Operating income	789.9	595.0
PAT	9.8	11.9
OPBDIT/OI	10.4%	11.8%
PAT/OI	1.2%	2.0%
Total outside liabilities/Tangible net worth (times)	1.5	1.5
Total debt/OPBDIT (times)	4.6	5.6
Interest coverage (times)	2.7	3.1

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 (2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore) Jan 31, 2023	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Mar 20, 2023	Dec 17, 2021	Dec 07, 2020	Aug 13, 2019
1	**Term loans**	Long-Term	100.53	100.53	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	**Cash credit**	Long-Term	325.00	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	**Non-fund based limits**	Short-Term	10.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+
4	**Unallocated limits**	Long-Term/ Short-Term	107.50	-	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	-

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Cash credit	Simple
Non-fund based limits	Very Simple
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 I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan – 1	FY2020	NA	FY2025	26.52	[ICRA]A- (Stable)
NA	Term loan – 2	FY2021	NA	FY2026	54.77	[ICRA]A- (Stable)
NA	Term loan	FY2023	NA	FY2038	19.24	[ICRA]A- (Stable)
NA	Cash credit	NA	NA	NA	325.00	[ICRA]A- (Stable)
NA	Non-fund based limits	NA	NA	NA	10.00	[ICRA]A2+
NA	Unallocated limits	NA	NA	NA	107.50	[ICRA]A- (Stable)/[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Menka Sabnani
+91 79 4027 1562
menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches