

November 30, 2023

NSL Sugars Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term -Fund Based - Term Loans	123.77	184.15	[ICRA]D; reaffirmed
Long term -Unallocated Limit	194.90	0.00	-
Total	318.67	184.15	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation takes into account the continuing delays in the debt servicing obligations on Sugar Development Fund (SDF) loans owing to the weak liquidity position of NSL Sugars Limited (NSL). ICRA notes that the company's application for restructuring has been approved by the standing committee of the SDF as of April 2023. The implementation of the SDF restructuring is subject to fulfilling all conditions including security charge creations, and is expected to be completed by Feb-March 2024. Also, NSL has some interest obligation due on the SDF loans which remained unpaid as on September 30, 2023, as the company has applied for loan restructuring. ICRA also notes that the company has been timely servicing its debt obligations for all the consortium bankers.

Further, ICRA takes note of the company's weak capital structure and debt coverage indicators in the last few years (FY2018-FY2023). The improved crushing levels, favourable sugar prices and enhanced distillery capacity would improve the scale, and profits and in turn the debt metrics following the successful implementation of the restructuring plan, though the credit profile would still be weak.

The rating is also constrained by the risks associated with the inherent cyclicity in the sugar business, the agro-climatic conditions related to cane production, the Government's policies on sugar trade, the pricing and offtake of co-generation power and ethanol and the counterparty credit risk associated with the sale of power to the utilities in Karnataka and Maharashtra.

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 SDF restructuring plan – The company's application for restructuring has been approved by the standing committee of SDF as of April 2023. The implementation of the restructuring is subject to fulfilling all conditions, including security charge creations, and is expected to be completed by Feb-March 2024.

NSL's financial profile has improved over the years, evident from its improving scale of operations as the cane crushing volumes and distillery sales increased with enhanced capacities. The company was able to report profits at the operating level, though it suffered losses at the net level in FY2022 due to Rs. 136.5-crore provision for impairment of investment in NSL (Tungabhadra) Sugars Limited (TSL). Post implementation of the SDF restructuring plan, the profitability is expected to improve further. However, ICRA takes note of the company's weak capital structure and debt coverage indicators in the last few years (FY2018-FY2023). The credit profile is expected to remain weak even after successful implementation of the restructuring plan.

Forward-integrated operations – NSL's sugar operations, with a capacity of 24,500 TCD, are forward integrated with 90-MW co-generation and 240-KLPD distillery capacities. The company had increased the Jay Mahesh unit's distillery capacity to 180 KLPD in FY2023 from 120 KLPD. The forward-integrated profile of the sugar operations cushions the profitability during periods of sugar downturn.

Credit challenges

Delays in debt servicing – ICRA notes that there have been continued delays by NSL in meeting its debt servicing obligations on the Sugar Development Fund (SDF) loans, as per the existing repayment schedule. The company has some interest obligation due on the SDF loan, which remained unpaid as on September 30, 2023 as the company has applied for restructuring. However, the company has been timely servicing its debt obligations for all the 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. The PPAs for Koppa and Aland already ended in October 2021 while the debt repayment is till FY2027. This exposes the company to demand and tariff risks. However, the demand for merchant power remains high and 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 cyclical nature of the sugar industry, agro-climatic risks related to cane production and Government policies on sugar trade.

Liquidity position: Poor

NSL's liquidity position is poor because of the low profitability and modest free cash flows against the debt repayment obligations. However, implementation of the SDF restructuring 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 6,500-TCD sugar plant along with a 26-MW co-generation plant and a 60-KLPD distillery at Koppa in the Mandya district of Karnataka and a 9,000-TCD sugar plant along with a 34-MW co-generation plant at Aland, Karnataka. Jay Mahesh Sugar Industries Limited (JMSIL) was taken over by NSL in FY2012. At present, Jay Mahesh unit is operational with a 9,000-TCD sugar unit, 30-MW cogen unit and a 180-KLPD distillery unit.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	1,090.0	1,268.0
PAT	-70.2	54.6
OPBDIT/OI	10.2%	7.3%
PAT/OI	-6.4%	4.3%
Total outside liabilities/Tangible net worth (times)	15.0	11.1
Total debt/OPBDIT (times)	8.3	11.6
Interest coverage (times)	2.7	5.3

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 (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 30, 2023	Aug 24, 2022	May 28, 2021	May 29, 2020
1	Fund based Limits – Term Loans	Long-Term	184.15	184.15	[ICRA]D	[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	0.00	-	-	[ICRA]D	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loans	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	Fund based Limits – Term Loans	Jul-2010 to Jun-2017	NA	FY2030	184.15	[ICRA]D

Source: NSL Sugars Limited

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

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