

March 15, 2024

Harinagar Sugar Mills Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Term loan	100.53	87.78	[ICRA]A-(Stable); reaffirmed
Long term – Fund-based – Cash credit	325.00	450.00	[ICRA]A-(Stable); reaffirmed/ assigned for enhanced amount
Short term – Non-fund based limits	10.00	10.00	[ICRA]A2+; reaffirmed
Long term/Short term – Unallocated limits	107.50	0.00	-
Total	543.03	547.78	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in Harinagar Sugar Mills Limited's (HSML) forward-integrated operations with scale up in its distillery operations in the past two 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 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. 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.

The ratings, however, remain constrained by the vulnerability of HSML'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. The crushing levels in SY2023 and SY2024, though improved from SY2022 levels, continue to be moderate. Further, the profitability of sugar mills, including HSML, 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 ratings factor in HSML's moderate debt coverage indicators and the high working capital intensity of its operations with NWC/OI at 59% in FY2023 due to 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 comfortable, driven by stable operating profits, along with a moderate debt level, supported by 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 cyclicity to some extent - HSML has a long operational track record of over 90 years in sugar manufacturing with an 11,500-tonne-crushed-per-day (TCD) facility in Bihar. The plant's operations are forward-integrated, with a co-generation capacity of 14.5 megawatt (MW) and a distillery capacity of 165 KLPD (increased from 140 KLPD since January 2024). The integrated operations provide alternative revenue streams and act as a cushion against the cyclicity associated with the sugar business to some extent.

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 price for a sugar season, which is applicable for all the sugar factories in the state. This pricing mechanism provides relief to sugar companies against the SAP mechanism followed in Uttar Pradesh, wherein only the state government decides the cane price, which is generally higher than Bihar. 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 59% as on March 31, 2023). The company's debt remained at Rs. 401.1 crore as on March 31, 2023, slightly higher than Rs. 397.4 crore as on March 31, 2022, resulting in a gearing of 1.2 times as of March 2023 (PY: 1.2 times). The company's debt coverage indicators remained moderate with an interest coverage of 4.0 times (PY: 3.1 times), TD/OPBDITA of 4.5 times (PY: 5.6 times) and TOL/TNW of 1.5 times (PY: 1.5 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 comfortable, driven by stable operating profits and a moderate debt level, supported by ethanol production.

Profitability vulnerable to policy interventions by the Government - HSML's profitability, along with that of the other sugar mills, continues to be vulnerable to the state government 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, cane prices in Bihar were 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 the 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 is 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, HSML 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.

Liquidity position: Adequate

HSML's liquidity is adequate, with expectation of healthy cash flow from operations due to favourable sugar realisations and increased diversion towards ethanol, along with cash and cash equivalents of Rs. 12.15 crore as on February 29, 2024. The company also had an average cushion of Rs. 96 crore in its working capital limits in the last 12 months ended January 2024. Its debt repayments (Rs. 19.9 crore in FY2025 and Rs. 23.2 crore in FY2026) 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 a strong liquidity position. An interest coverage ratio above 5 times, on a consistent basis, may also lead to an upgrade.

Negative factors – ICRA could revise the ratings 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 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Sugar
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 has a crushing capacity of 11,500 TCD, distillery capacity of 165 KLPD (increased from 140 KLPD) and a co-generation capacity of 14.5 MW.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	595.0	766.2
PAT	11.9	12.1
OPBDIT/OI	11.8%	11.6%
PAT/OI	2.0%	1.6%
Total outside liabilities/Tangible net worth (times)	1.5	1.5
Total debt/OPBDIT (times)	5.6	4.5
Interest coverage (times)	3.1	4.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore) Jan 31, 2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 15, 2024	Mar 20, 2023	Dec 17, 2021	Dec 07, 2020	
1	Term loans	Long-Term	87.78	87.78	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Cash credit	Long-Term	450.00	-	[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	0.00	-	-	[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
Long term – Fund-based – Term loan	Simple
Long term – Fund-based – Cash credit	Simple
Short term – Non-fund based limits	Very 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	Term loan – 1	FY2021	NA	FY2026	35.18	[ICRA]A- (Stable)
NA	Term loan – 2	FY2023	NA	FY2038	18.60	[ICRA]A- (Stable)
NA	Term loan – 3	FY2024	NA	FY2029	34.00	[ICRA]A- (Stable)
NA	Cash credit	NA	NA	NA	450.00	[ICRA]A- (Stable)
NA	Non-fund based limits	NA	NA	NA	10.00	[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

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