

October 08, 2024

Saraswati Sugar Mills Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Working capital facilities	436.65	336.65	[ICRA]A (Stable); reaffirmed
Long-term fund-based – Term loan	83.00	60.00	[ICRA]A (Stable); reaffirmed
Short-term non-fund based – Working capital facilities	5.00	5.00	[ICRA]A1; reaffirmed
Long-term – Unallocated limits	31.30	-	-
Total	555.95	401.65	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the ratings for the bank lines of Saraswati Sugar Mills Limited (SSML) factors in the healthy business profile following the operationalisation of the expanded 160-KLPD distillery in June 2023 (enhanced from 100KLPD) that has aided revenue diversification, and is expected to result in relatively lower working capital intensity (with ethanol having payment cycle of 2-3 weeks) translating into comfortable coverage indicators in the medium term.

SSML's revenues declined by 16% in FY2024, with distillery sales remaining largely stable at Rs. 213 crore (Rs. 202 crore in FY2023 and Rs. 52 crore in FY2022) and sugar revenues declined by 20% to Rs. 589 crore in absence of any exports (Rs. 91 crore in FY2023) and domestic sales declining by 9% due to lower domestic release quota. Sugar production increased by 7%, while sugar sales volumes declined by 14% YoY in FY2024. Consequently, with production being higher than sales, closing sugar stock increased by 23% YoY to 1.01 lakh MT, leading to higher NWC/OI of 39% in FY2024 vis-à-vis 25% in FY2023. This led to higher utilization of working capital limits, and total closing debt increased by 37% YoY in FY2024 to Rs. 265.6 crore as on March 31, 2024 (PY: Rs. 193.4 crore). However, with average debt being lower YoY throughout FY2024, interest cost declined slightly to Rs. 13.6 crore in FY2024 vs Rs. 14.8 crore in FY2023. Hence, interest coverage remained stable and healthy at 8.4 times in FY2024 (PY: 8.2 times). DSCR also remained stable at 2.6 times in FY2024.

Share of non-sugar division revenues have increased from 16% in FY2022 to 25% in FY2023, and further to 29% in FY2024. In FY2024, the distillery division contributed ~25% to the total net revenues, compared to ~21%/8% in FY2023/FY2022 (nil till FY2021). Going forward as well, the ethanol division's contribution is expected to increase to ~25-30%, due to higher distillery volumes following the capacity ramp-up. SSML will evaluate the possibility of external molasses purchases to enhance capacity utilization of the distillery, if the prevailing prices lead to viable ethanol production.

In SY2024 (sugar year Sep-Oct), there has been a significant decline in cane procurement (~12% decline in SY2024 to 14.7 lakh MT) due to diversion towards other cash crops like poplar. Hence, in FY2025 overall revenues are expected to be flattish or witness decline due to expectation of lower sugar production. Thereafter, the revenue growth would be contingent on the company's ability to encourage farmers to shift gradually towards more cane production, and allocation of higher domestic and export sugar sales quotas.

SSML also incurred capex of Rs. ~70 crore in FY2024, largely towards sugar refining capacity, which was funded by internal accruals. This has led to improvement in realisations by upto Rs. Rs. ~0.5-1.0/kg of sugar. Going forward, there are no major capex plans by SSML.

The ratings continue to factor in SSML's long operational track record in the sugar industry and the financial support from its parent company, ISGEC Heavy Engineering Limited (IHEL; rated at [ICRA]AA (Stable)/[ICRA]A1+). ICRA notes that the parent company has supported SSML by providing relatively low-cost loans during the previous cyclical downturns, which lends support to SSML's credit profile.

Also, SSML's profitability remains vulnerable to the cyclical nature of the sugar industry and the agro-climatic risks related to cane production. Further, the profitability of sugar mills, including SSML, remains vulnerable to the policies of both the state and the Central Government, international sugar 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 SSML will continue to benefit from its healthy operational profile, partially forward-integrated operations, the long track record and strong parentage to generate steady cash flow from operations and maintain a stable credit profile.

Key rating drivers and their description

Benefits of being a fully-owned subsidiary of IHEL – SSML benefits from being a wholly-owned subsidiary of IHEL, which has a strong financial risk profile, reflected in its rating of [ICRA]AA(Stable)/[ICRA]A1+. This has been demonstrated by the relatively low cost of the loans extended by the parent in times of cyclical downturns. Further, the company enjoys strong financial flexibility because of its strong parentage, as part of the ISGEC Group, and the access of the latter to low-cost funds at a short notice provides comfort.

Long track record, forward-integrated operations – SSML has a crushing capacity of 10,000 tonnes crushed per day (TCD) and a long track record of operations of over nine decades. Further, the company has forward integrated its operations with the commercialisation of a 100-KLPD distillery in December 2021 (enhanced to 160 KLPD in June 2023), thus strengthening its operational profile. The integrated operation provides alternative revenue sources and cushions its profitability against the cyclicity in the sugar business, lending stability to the operating profits.

Profitability likely to remain healthy owing to steady sugar realisations and steady volumes from distillery segment – SSML's overall operating profitability and cash accruals are expected to benefit from firm sugar realisations, along with slightly better distillery performance in the near term. SSML's operating margins will be supported by the likely continuation of MSP, remunerative prices of ethanol and the industry's focus on diverting excess cane towards ethanol production, which will improve the domestic demand-supply balance. Further, with the increase in sugar sacrifice towards ethanol, the working capital debt and hence the total debt levels are anticipated to slightly moderate.

Comfortable debt coverage metrics – SSML's total debt stood at Rs. 265.6 crore as on March 31, 2024 as compared to Rs. 193.4 crore as on March 31, 2023 (Rs. 345.3 crore as on March 31, 2022). This is due to increase in the short-term borrowings owing to higher working capital requirements as well as capex for refining capacity being funded out of internal accruals. However, despite higher debt levels overall debt metrics moderated slightly but remained comfortable in FY2024 with gearing of 0.67 times (PY: 0.54 times), total debt/OPBIDTA at 2.3 times (PY: 1.6 times) and interest cover at 8.4 times (PY: 8.2 times). DSCR also remained stable at 2.6 times in FY2024 (PY: 2.6 times). The debt coverage metrics are expected to remain healthy, going forward as well, but are expected to witness slight deterioration in the near term due to expectation of decline in profitability.

Credit challenges

Moderating cane crushing levels – SSML crushed 14.66 lakh MT of cane in SY2024 (12% lower than SY2023 levels), as farmers have gradually been shifting to more cash-rich crops like poplar. SSML believes it will be able to gradually convince farmers in its command area to grow more cane to bring crushing levels to ~16-17 lakh MT over the medium term. The company's gross recovery rate for the sugar season remained healthy at ~11.3% in SY2024 (11.3% in SY2023 as well). The net recovery rates improved to ~9.90% in SY2024 (PY: 9.75%) as entire cane was crushed to produce B-heavy molasses in SY2023, but ~10%/90%

of the cane was crushed to produce C-heavy/B-heavy molasses in SY2024. Higher production of C-heavy molasses leads to higher net recovery rates vis-à-vis B-heavy/juice routes. The net recovery might moderate if SSML decides to produce ethanol via the juice route in SY2025, however it will depend upon the price parity of sugar and molasses in relation to the price of Ethanol.

Profitability reliant on Government policies – SSML’s profitability, along with other Haryana-based sugar mills, continues to be vulnerable to the state government’s policy on cane prices. Cane prices as well as the related subsidy is determined by the state government at the beginning of the crushing season. Thus, the company’s performance can be impacted by a disproportionate increase in the net cane price. Further, its profitability remains vulnerable to the Central Government’s policies on exports, minimum support price (MSP) and remunerative ethanol prices. However, the recent measures taken by the Central and state government have supported sugar prices and the liquidity of sugar mills. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex are likely to prevent the piling up of cane arrears. Even as Haryana-SAP increased by Rs. 14/quintal for SY2024 and further by Rs. 14/quintal for SY2025 to Rs. 400/Quintal for basic gross recovery level of 10.25%, firm realisations, healthy sugar sales volumes as well as realisations, and enhanced ethanol volumes support profitability.

Profitability of sugar mills vulnerable to industry cyclicality and agro-climatic risks – Being an agri-commodity, the sugarcane crop depends on climatic conditions and is vulnerable to pests and diseases, which may influence the yield per hectare and the recovery rate. These factors can have a significant impact on the company’s profitability. Further, high dependence on a single crop may affect the yield and recovery rate. Nonetheless, SSML has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclicality in sugar production results in a volatility in sugar prices. However, the sharp contraction in sugar prices has been curtailed after the introduction of MSP by the Central Government. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice is expected to help 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

SSML’s liquidity position is adequate with likely healthy cash flow from operations and an average cushion of around Rs. ~55 crore in drawing power for the 12 months ended April 2024, which is expected to remain at similar healthy levels going forward as well. ICRA expects SSML to comfortably meet its debt repayment obligations of ~Rs. 38 crore during FY2025, Rs. 12.7 crore each in FY2026-FY2027. There are no major capex plans over FY2025-FY2027, which is likely to be funded through internal accruals.

Rating sensitivities

Positive factors – An upgrade will be backed by continued period of firm sugar prices, driven by favourable demand-supply dynamics, which will lower the volatility in cash flows from the sugar business and improve the operating profits and debt coverage metrics on a sustained basis.

Negative factors – Pressure on the ratings could arise if there is any sharp decline in sugar prices, recovery rate, or if cane costs rise. Further, sustained reduction in cane crushing volumes or any significant decline in ethanol realisations, or any material change in Government policies moderating the profitability and debt coverage metrics on a sustained basis could also weigh on the ratings. The ratings could also be downgraded if the credit profile of the parent, i.e. IHEL, deteriorates, or if the linkage with the parent weakens.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Sugar
Parent/Group support	Parent Company: ISGEC Heavy Engineering Limited (IHEL) ICRA expects SSML to benefit from the financial support extended by the parent company, if required
Consolidation/Standalone	Standalone

About the company

SSML was the earliest business of the Puri family and was established in 1933, translating to an operational track record of more than nine decades. SSML is a 100% subsidiary of Isgec heavy Engineering Limited, the flagship company of the ISGEC Group (established in 1946), engaged in the manufacturing of heavy engineering equipment and providing related engineering, procurement and construction (EPC)/turnkey services. SSML operates a 10,000-TCD sugar mill along with a 160-KLPD distillery at Yamuna Nagar, Haryana.

Key financial indicators (audited)

SSML Standalone	FY2023	FY2024
Operating income	984.5	823.3
PAT	66.8	62.6
OPBDIT/OI	12.3%	13.9%
PAT/OI	6.8%	7.6%
Total outside liabilities/Tangible net worth (times)	1.0	1.1
Total debt/OPBDIT (times)	1.6	2.3
Interest coverage (times)	8.2	8.4

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 (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Working capital facilities	Long-term	336.65	Oct 08, 2024	[ICRA]A (Stable)	Jul 24, 2023	[ICRA]A (Stable)	Jun 30, 2022	[ICRA]A-(Stable)	Apr 12, 2021	[ICRA]A-(Stable)
Fund-based – Term loan	Long-term	60.00	Oct 08, 2024	[ICRA]A (Stable)	Jul 24, 2023	[ICRA]A (Stable)	Jun 30, 2022	[ICRA]A-(Stable)	Apr 12, 2021	[ICRA]A-(Stable)
Non-fund based – Working capital facilities	Short-term	5.00	Oct 08, 2024	[ICRA]A1	Jul 24, 2023	[ICRA]A1	Jun 30, 2022	[ICRA]A1	Apr 12, 2021	[ICRA]A1
Unallocated limits	Long-term	0.00	Oct 08, 2024	-	Jul 24, 2023	[ICRA]A (Stable)	Jun 30, 2022	[ICRA]A-(Stable)	Apr 12, 2021	[ICRA]A-(Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working capital facilities	Simple
Long-term fund-based – Term loan	Simple
Short-term non-fund-based – Working capital facilities	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	Long-term fund-based – Working capital facilities	NA	~7.5%-8.10%	NA	336.65	[ICRA]A (Stable)
NA	Long-term fund-based – Term loan	Aug-2020	8.20%	FY2027	60.00	[ICRA]A (Stable)
NA	Short-term non-fund based – Working capital facilities	NA	NA	NA	5.00	[ICRA]A1

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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