A.B. Sugars Limited

Instrument	Amount	Rating Action
	In Rs. Crore	**As on November 2016**
Fund-based Limits		
Term Loan	25.97	[ICRA]BBB-; revised from [ICRA]BB+ Outlook revised to 'Stable' from 'Positive'
Cash Credit Limit	110.00	[ICRA]BBB-; revised from [ICRA]BB+ Outlook revised to 'Stable' from 'Positive'
Unallocated Fund-based Limit	77.22	[ICRA]BBB-; revised from [ICRA]BB+ Outlook revised to 'Stable' from 'Positive'
Non-fund Based Limits		
Letter of Credit/ Bank Guarantee	30.00	[ICRA]A3; revised from [ICRA]A4+
Total	**243.19**	

ICRA has revised its long-term rating to [ICRA]BBB- (pronounced ICRA triple B minus) from [ICRA]BB+ (pronounced ICRA double B plus) on the Rs. 25.97-crore term loan, the Rs. 110.00-crore cash credit facilities and the unallocated limits of Rs.77.22 crore of A.B. Sugars Limited (ABSL). The outlook on the long-term rating has been revised to 'Stable' from 'Positive'. ICRA has also revised its short-term rating to [ICRA]A3 (pronounced ICRA A three) from [ICRA]A4+ (pronounced ICRA A four plus) on the Rs. 30-crore letter of credit-cum-bank guarantee limits of ABSL.

The ratings upgrade factors in the currently healthy sugar prices, which are expected to continue on the back of favourable supply-demand situation in Sugar Year (SY) 2017, supporting the contribution margins. Furthermore, ABSL has also benefitted from the improvement in sugar recovery rate in SY2016, which led to lower cost of production and translated into healthy cash accruals of Rs. 49.75 crore. The company has also reported significant gains in FY2017 on the sugar inventory of ~58,000 MT as on March 31, 2016, with the average sugar price prevailing around Rs. 35,000/MT.

The ratings factor in ABSL's favourable capital structure; its large scale sugar operations, with operationally efficient sugar units; and forward integration into cogeneration and distillery businesses, which provide alternate revenue streams and reduce the impact of the cyclicality of the sugar business to an extent. The ratings also derive comfort from the availability of adequate bank limits to support the company's working capital-intensive operations.

However, the ratings are constrained by the fact that profitability of Punjab-based sugar mills will continue to remain vulnerable to the Government of Punjab's policy on cane prices and cane subsidy. This apart, profitability of sugar mills will also remain vulnerable to the cyclical nature of the sugar industry and the agro-climatic risks related to cane production.

Continued firmness in sugar prices and favourable policy environment along with the company's ability to maintain optimal working capital will be the key monitorables.

About the company

ABSL is a 7,000 tonnes crushed per day (TCD) private sector sugar mill with a 60 Kilo Litres Per Day (KLPD) distillery and a 33 Mega Watt (MW) bagasse-based cogeneration plant located in Dasuya Tehsil in the Hoshiarpur District of Punjab. In FY2016, the company derived 61% of its top line from sugar sales, 31% from sale of liquor and the remaining from power sales and other related activities.

Recent Results

In FY2016, the company reported a net profit of Rs. 35.58 crore on an Operating Income (OI) of Rs. 377.19 crore, as against a net loss of Rs. 18.86 crore on an OI of Rs. 312.96 crore in the previous year. In H1, FY2017, the company reported, on a provisional basis, an operating income of Rs 250.87 crore.

November 2016

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