June 22, 2021

Hanumant Sugars Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based, Term Loans	8.68	[ICRA]BBB+ (Stable), assigned
Fund-based, Cash Credit	5.00	[ICRA]BBB+ (Stable), assigned
Fund-based, Short-term Working Capital	10.00	[ICRA]A2, assigned
Total	**23.68**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the following five entities – Narmada Sugars Private Limited (NSPL), Ramdev Sugars Private Limited (RSPL), Shrijee Sugar and Power Private Limited (SSPPL), Shakti Sugar Mill Private Limited (SSMPL) and Hanumant Sugars Private Limited (HSPL). These entities, collectively referred here as the Maheshwari group, have a common management, are in the same line of business, and have significant business and financial linkages.

The assigned ratings favorably factor in the long-standing experience of the promoters and the established track record of the Maheshwari group in the sugar industry; its proximity to the key sugarcane growing areas of Madhya Pradesh; and its established relations with farmers, which ensures adequate cane availability for the group. The ratings also draw comfort from the integration of the sugar operations with power cogeneration and distillery business, which provides the necessary cushion to the Group's profitability against the cyclicality in sugar operations. The ratings also consider the Group's healthy profitability and adequate debt coverage indicators, and the continued government support to the sugar industry through various favourable policies.

The ratings, however, are constrained by the Group's high working capital intensity, mainly because of the year-end sugar inventory build-up and the vulnerability of its profitability to volatility in sugar price movements. The ratings also factor in the Group's exposure to the inherent cyclicality in the sugar industry; the agro-climactic risks related to cane production; and the Central Government's policies on sugar trade, and pricing of cane, sugar and ethanol.

The stable outlook reflects ICRA's expectation that the Group would be able to ensure adequate cane availability, given its strong relations with farmers, and maintain healthy revenues and profitability, supported by its integrated operations.

Key rating drivers and their description

Credit strengths

Experienced promoter group with long track record of operations- The Maheshwari group has a track record of close to three decades in the sugar manufacturing business. Over the years, the Group has significantly increased its cane crushing capacity, which currently stands at 15,250 Tonnes Crushed Per Day (TCD). The Group has a long and established relationship with farmers in its catchment area, which ensures adequate cane availability to all its sugar mills. The same is evident from the high cane crushing volumes reported by the Group, averaging around 1.6 million MT in the last three sugar seasons. The entire operational and managerial control of the five entities lies with the members of the Maheshwari family.

Favourable location and integrated sugar operations- The Group's sugar mills are in proximity to the sugarcane growing areas of Madhya Pradesh, resulting in adequate cane availability and low transportation cost. Moreover, all the five companies of the Group have power co-generation units for captive consumption, which leads to savings in power costs and extra revenue from sale of surplus power, in case of NSPL. The Group also benefits from the 60 Kilo Litres per day (KLPD) distillery capacity under NSPL, which provides an additional revenue stream and cushions the operating profitability from the inherent cyclicality in the sugar business.

Healthy profitability indicators, adequate debt protection metrics – The Group reported healthy operating profit margins, (OPM) in the range of 13-15% in the past three fiscals, supported by its integrated operations and relatively low over overheads. The net profitability also stood healthy at 5-6%. Additionally, the Group's capitalisation and debt coverage indicators remained adequate, with gearing of ~1.08 time and interest coverage of above 3 times as on March 31,2020. The profitability and debt coverage indicators are expected to be sustained at similar levels over the near to medium term.

Favourable government policies towards sugar industry – The Group benefits from the various fiscal incentives extended by the Government to the domestic sugar industry, which include subsidy for sugar exported, soft loans as well as interest subvention schemes. The Government has also promoted Ethanol manufacturing from B-molasses against C-molasses, mainly by offering it a relatively higher realisation, which is likely to support the profitability and cashflows of integrated sugar units like NSPL.

Credit challenges

Exposure to agro-climatic risks and cyclical trends in sugar business - Being an agri-commodity, the sugar cane 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 Group's profitability. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in the sugar prices is curtailed after the introduction of minimum selling price (MSP) for sugar by the Central Government in June 2018. Over the long term, higher ethanol production with increased usage of 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.

High working-capital intensity characterised by high inventory holdings – As is inherent in the sugar industry, the Group's inventory levels remain on the higher side because of the seasonal nature of business. The build-up of sugar stock reaches its peak at the fiscal year end (March), resulting in high working capital requirements. The Group has adequate sanctioned working capital limits and is also supported by sizeable unsecured loans from promoters to meet its working capital requirements. Additionally, there is cash flow fungibility between the five entities considered for consolidation, wherein funding support is provided to each other through infusion of loans/advances on a need basis. Nevertheless, timely liquidation of the high sugar stocks at adequate prices remains critical for the Group's profitability and liquidity.

Vulnerability to Government/regulatory policies - The sugar industry is highly regulated, with various Government Acts governing virtually all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by-product pricing. Thus, the Group's operations remain vulnerable to any unfavourable changes in government policies. Typically, the profitability of sugar entities is driven by sugar realisations and cane procurement costs. While sugar realisations are mainly market driven subject to floor price levels, the government fixes the fair and remunerative price (FRP) for cane. Thus, any adverse movements in the sugarcane pricing may impact the contribution margins and, hence, the profitability of sugar mills.

Liquidity position: Adequate

The Group's liquidity position is **adequate**. The Group's cash flows are expected to be adequate to comfortably service its term loan repayment obligations over the medium term. The Group's liquidity is further supported by the unutilised cash credit limit of Rs 28.28 crore and warehouse receipt facility of Rs 81.57 crore as on March 31,2021. Additionally, there is cash flow fungibility available between the five entities considered for consolidation, wherein funding support is provided to each other through infusion of loans/advances on a need basis. The promoters have also supported the entities through regular infusion of unsecured loans to meet the working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Maheshwari group demonstrates healthy increase in revenues and profitability resulting in an overall improvement in cash accruals and debt protection metrics on a sustained basis. A sustained improvement in the operating cycle, resulting in enhanced liquidity, may also trigger a rating upgrade.

Negative factors – Negative pressure on the ratings could emerge if any significant decline in sugar prices or recovery rate, or increase in cane costs, impacts the Group's profitability and debt coverage metrics on a sustained basis. A specific metric, leading to negative rating action, could be interest coverage ratio falling below 3 times on a sustained basis. Further, any significant outflow, in the form of loans and advances to entities other than those considered for consolidation, which impacts the consolidated liquidity, may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has combined the business and financial risk profiles of Narmada Sugars Private Limited (NSPL), Ramdev Sugars Private Limited (RSPL), Shrijee Sugar and Power Private Limited (SSPPL), Shakti Sugar Mill Private Limited (SSMPL) and Hanumant Sugars Private Limited (HSPL). These entities collectively referred to herein as the Maheshwari group, have a common management, are in the same line of business, and have significant business and financial linkages.

About the company

NSPL commenced operations in 1992 at its Khandsari unit in Narsinghpur district of Madhya Pradesh, with a capacity of 200 tonnes crushed per day (TCD). The cane crushing capacity has gradually increased over the years and currently stands at 5,000 TCD. The company's sugar operations are further supported by a bagasse based co-generation power plant of 30 MW and a distillery unit with ethanol manufacturing capacity of 60 kilo-litres per day (KLPD), which became operational from May-2019. NSPL is a part of the Madhya Pradesh-based Maheshwari Group. The Group is promoted by Mr. Navneetlal Maheshwari and Mr. Rajesh Maheshwari. The entire operations of the Group are managed by the members of the Maheshwari family.

NSPL, along with four other companies of the Maheshwari group viz. RSPL, SSPPL, SSMPL and HSPL, has a combined capacity of 15,250 TCD. All the five entities operate in the fertile areas of Madhya Pradesh, where the climatic conditions are conducive for sugarcane cultivation, and irrigation is mainly through tube wells. Profiles of the four entities are provided below.

RSPL started its operations in 2000 and has a capacity of 3500 TCD. It also has a bagasse-based captive power plant of 3 MW capacity. The company's unit is located in Hoshangabad district of Madhya Pradesh.

SSPPL started its operations in 2012 and has a capacity of 2500 TCD. It also has a bagasse-based captive power plant of 2.5 MW capacity. The company's unit is located in Betul district of Madhya Pradesh.

HSPL started its operations in 2016 and has a capacity of 1250 TCD. It also has a bagasse-based captive power plant of 2.5 MW capacity. The company's unit is located in Betul district of Madhya Pradesh.

SSMPL started its operations in 2007 and has a capacity of 3000 TCD. It also has a bagasse-based captive power plant of 2.5 MW capacity. The company's unit is located in narsinghpur district of Madhya Pradesh.

Key financial indicators

	NSPL		RSPL		SSPPL		HSPL		SSMPL	
Particulars	**FY2019 (Audited)**	**FY2020 (Audited)**	**FY2019 (Audited)**	**FY2020 (Audited)**	**FY2019 (Audited)**	**FY2020 (Audited)**	**FY2019 (Audited)**	**FY2020 (Audited)**	**FY2019 (Audited)**	**FY2020 (Audited)**
Operating Income (Rs. crore)	203.40	305.68	103.90	112.28	91.97	142.97	24.68	56.66	81.55	85.68
PAT (Rs. crore)	13.73	23.22	4.69	4.26	5.24	6.17	0.53	1.93	4.04	6.65
OPBDIT/OI (%)	18.51%	16.57%	10.61%	6.69%	16.98%	11.80%	19.59%	9.60%	10.58%	12.15%
PAT/OI (%)	6.75%	7.60%	4.51%	3.80%	5.70%	4.32%	2.13%	3.41%	4.96%	7.76%
Total Outside Liabilities/Tangible Net Worth (times)	3.13	1.91	1.79	1.62	3.75	2.40	8.84	4.59	1.96	1.27
Total Debt/OPBDIT (times)	4.59	2.84	4.87	6.02	4.61	3.91	6.31	3.48	3.99	2.46
Interest Coverage (times)	3.29	3.50	2.95	2.54	3.12	2.97	1.90	2.01	4.20	3.76

Source: Company, ICRA Research; All ratios as per ICRA calculations; 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

SN	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding* (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					June 22,2021	**-**	**-**	**May 17,2018**
1	Fund-based – Term Loans	Long-term	8.68	8.68	**[ICRA]BBB+ (Stable)**	-	-	-
2	Fund-based – Cash Credit	Long-term	5.00		**[ICRA]BBB+ (Stable)**	-	-	-
3	Fund-based – Working Capital	Short-term	10.00		**[ICRA]A2**	-	-	-
4	Fund-based	Long-term	-		**-**	-	-	[ICRA]B+ (Stable) withdrawn
5	Unallocated	Long-term	-		**-**	-	-	[ICRA]B+ (Stable) withdrawn

**as on March 31,2021*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based Term Loan	Simple
Fund-based Cash Credit	Simple
Fund-based Short Term Working Capital Facilities	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 analyzing 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Fund-based – Term Loans	FY2017	-	FY2026	8.68	[ICRA]BBB+ (Stable)
NA	Fund-based – Cash Credit	-	-	-	5.00	[ICRA]BBB+ (Stable)
NA	Fund-based, Short-term Working Capital	-	-	-	10.00	[ICRA]A2

Source: *Company; NA: Not Applicable*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Remarks	Consolidation Approach
Narmada Sugars Private Limited	Group entity	Full consolidation
Shrijee Sugar and Power Private Limited	Group entity	Full consolidation
Shakti Sugar Mill Private Limited	Group entity	Full consolidation
Ramdev Sugars Private Limited	Group entity	Full consolidation

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About ICRA Limited:

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