September 29, 2023

The Andhra Sugars Limited: Ratings reaffirmed; Fixed deposit rating put on notice for withdrawal

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based- Working capital facilities	78.00	78.00	[ICRA]A+ (Stable); reaffirmed
Long term - Fund based - Unallocated	22.00	22.00	[ICRA]A+ (Stable); reaffirmed
Short term - Non-fund based - Working capital facilities	46.80	47.10	[ICRA]A1+; reaffirmed
Short term - Non -fund based Unallocated limits	13.20	12.90	[ICRA]A1+; reaffirmed
Total	**160.00**	**160.00**	
Fixed deposits**	**50.00**	**50.00**	[ICRA]A+ (Stable); Put on notice for Withdrawal

**Instrument details are provided in Annexure-I*

*** placed on notice of withdrawal for 6 months*

Rationale

The rating reaffirmation of The Andhra Sugars Limited (ASL) considers its diversified and integrated operational profile, robust leverage and coverage metrics and strong liquidity position. ASL has a robust capital structure, characterised by low gearing due to the very low debt levels. The standalone financial profile of ASL is also characterised by healthy profitability levels, resulting in strong debt protection metrics. The operating profitability, although healthy, moderated to 12.1% in Q1 FY2024 from 19.3% in FY2023. The operating profitability is expected to moderate in FY2024 with the decline in the profitability of the chloro alkali and industrial chemical segments primarily due to decrease in caustic soda prices and increase in power costs.

The financial performance of the subsidiaries also remained stable and that of the associate declined in FY2023. However, the consolidated financial profile, though healthy, witnessed a slight YoY moderation of OPM to 12.6% in FY2023 from 13.3% during FY2022. Nevertheless, the coverage indicators, at the standalone and consolidated levels, continued to be comfortable in FY2023. The ratings also factor in ASL's strong liquidity profile, evident from the liquid investments and free cash balances of ~Rs. 185 crore on a consolidated basis and ~Rs. 140 crore on a standalone basis as on March 31, 2023, and the significant unutilised working capital limits.

The ratings continue to factor in ASL's integrated operations (resulting in operating efficiencies), strong research and development capabilities, sound management background and its diversified business profile. This partly insulates it from the business cycles affecting its two main businesses - sugar and chemicals. The ratings also factor in the company's presence in southern India, which is a relatively better chlor-alkali market in terms of the demand-supply dynamics.

The ratings, however, are constrained by the lower cane availability in its catchment area as farmers have shifted to other remunerative crops, leading to low crushing levels in the last few years. The crushing volumes and, thereby, the sugar division's utilisation is likely to remain subdued in the near future. The ratings continue to be constrained by the inherent cyclicality in the chlor-alkali business and its vulnerability to import duty levels, exchange rate fluctuations and the global supply-demand dynamics. The ratings also continue to consider the exposure of the sugar business to cyclical trends as well as the associated agro-climatic and regulatory risks.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that ASL will continue to benefit from the comfortable capital structure, healthy liquidity profile and the commitment towards conservative financial policies.

Key rating drivers and their description

Credit strengths

Diversified business profile - ASL is a diversified player, with presence in chlor-alkali and its derivatives, sugar and allied activities, other organic and inorganic chemicals and wind power. At a standalone level, the chemical division, which includes caustic soda, caustic potash, sulphuric acid, chlorine, hydrochloric acid, and industrial alcohol, etc, accounts for a major part of the revenues (82% of the total revenues in FY2023 and 75% in Q1 FY2024), while the sugar division made up for 11% in FY2023.

Comfortable financial risk profile – ASL's capital structure is robust and characterised by low gearing of 0.02 times on a standalone basis and 0.01 times on a consolidated basis as on March 31, 2023. The debt coverage metrics remained healthy with interest cover of 80.6 times (consolidated) and 98 times (standalone) and total debt/ operating profit of 0.1 times on both consolidated and standalone basis in FY2023. Despite the expected moderation in operating profitability in FY2024, the debt coverage metrics are expected to remain healthy.

Credit challenges

Exposed to volatility in ECU realisation– The ECU realisations have been volatile in the past. International caustic soda prices moderated in FY2020 and FY2021. However, in FY2022 and H1 FY2023, global caustic soda prices witnessed an overall uptrend. However, moderation was witnessed in H2 FY2023 and Q1 FY2024 due to pressure on demand and increased capacity addition putting pressure on the realisations. The chloro alkali segment recorded profitability (PBIT%) of 24.2% in FY2023 vis-à-vis 23% in FY2022; However, the profitability (PBIT%) reduced to 11.2% in Q1 FY2024 due to lower realisations and increase in power costs.

Sub-optimal cane crushing levels - Cane availability in ASL's catchment area has been low over the last many sugar seasons as farmers shifted to other remunerative crops. Hence, sugar plants are operating at sub-optimal capacity due to which the company had to temporarily shut its sugar unit at Bhimadole, Andhra Pradesh, in FY2021. The sugar unit at Tanuku, Andhra Pradesh, was closed earlier in FY2016. Of the three units, the company is now operating only one unit at Taduvai. In FY2023, 3.37 lakh tonnes of cane was crushed. However, cane crushing is expected to remain subdued in the near to medium term.

Cyclical nature of sugar and chemical businesses - The profitability of the sugar business is exposed to the cyclicality of the sugar industry, agro-climatic risks related to cane production and Government policies related to sugar trade, cane cost and sugar realisation. The chemical business is exposed to currency fluctuations and duty structures, apart from the cyclicality associated with global and domestic demand-supply balance.

Liquidity position: Strong

ASL's liquidity is strong, given the significant free cash balances and liquid investments of ~Rs. 140 crore (standalone) and ~Rs. 185 crore (consolidated) as on March 31, 2023 and the significant cushion available in the fund-based working capital limits at a standalone level, with nil utilisation in FY2023. While ASL has a capex plan of ~Rs. 100 crore to be incurred in FY2024 and has a moderate repayment obligation of deferred sales tax loan obligations in FY2024, these are expected to be comfortably met through the available cash balances and cash accruals from operations.

Environmental and social concerns:

ASL manufactures caustic soda, which results in the production of chlorine as a by-product, the disposal of which remains a key challenge for the industry. The chemical industry remains exposed to the risk of tightening regulations on environment and safety, which can have a potential bearing on the cost structure or lead to moderate capital outlay for mitigation and treatment. While ASL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency-high impact) weighs on its ratings.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health, and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. ASL hasn't experienced/reported any incident suggestive of safety lapses in its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is a significant improvement in the consolidated revenue and profitability amid a healthy capital structure and coverage indicators.

Negative factors – Pressure on the ratings could arise if the revenue or profitability declines on a sustained basis, or if any stretch in the working capital cycle impacts the liquidity. The ratings may also be downgraded if the company incurs a larger-than-expected debt-funded capex that will impact its capital structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry Rating Methodology for Entities in the Chemical Industry ICRA's Policy on Withdrawal of credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASL. As on March 31, 2023, the company had three subsidiaries and an associate, which are all enlisted in Annexure II

About the company

ASL is a diversified company, with presence in sugar and allied activities, chemicals including chlor-alkali and its derivatives, other organic and inorganic chemicals and wind power. It was promoted by Late Dr. Mullapudi Harischandra Prasad and Late P. S. R. V. K. Ranga Rao. ASL commenced its operations as a sugar manufacturer in 1947 and gradually diversified into other businesses. At present, it has four operating divisions (i) sugar and allied products (including co-products like bagasse and molasses, co-generation and distillery operations) (ii) chlor-alkali products like caustic soda and its co-products, caustic potash and its co-products (iii) industrial chemical liquid propellants and other related products, solid and liquid rocket propellants for the Indian Space Research Organisation (ISRO) (iv) power generation and other products.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	1,961.6	2,367.6
PAT	167.9	183.6
OPBDIT/OI	13.3%	12.6%
PAT/OI	8.6%	7.8%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	20.1	80.6

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

Standalone	FY2022	FY2023
Operating income	1,218.2	1,453.7
PAT	161.7	174.1
OPBDIT/OI	20.2%	19.4%
PAT/OI	13.3%	12.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.2	0.1
Interest coverage (times)	19.2	98.0

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 of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Sep 29, 2023	Sep 30, 2022	Jun 07, 2022	Sep 28, 2021	Sep 14, 2020
1	**Fund based - Working capital facilities**	Long Term	78.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	**Fund based - Unallocated**	Long Term	22.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	**Non-fund based - Working capital facilities**	Short Term	47.10	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	**Non-fund based unallocated limits**	Short Term	12.90	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
5	**Fixed deposits**	Long Term	50.00	0.06	[ICRA]A+ (Stable); Put on notice for Withdrawal	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	MAA- (Stable)	MAA- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund based- Working capital facilities	Simple
Long term - Fund based - Unallocated	NA
Short term - Non-fund based - Working capital facilities	Very Simple

Short term - Non-fund based unallocated limits	NA
Fixed deposits	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	Fund based - Working capital facilities	NA	NA	NA	78.00	[ICRA]A+ (Stable)
NA	Fund based - Unallocated	NA	NA	NA	22.00	[ICRA]A+ (Stable)
NA	Non-fund based- Working capital facilities	NA	NA	NA	47.10	[ICRA]A1+
NA	Non-fund based Unallocated limits	NA	NA	NA	12.90	[ICRA]A1+
NA	Fixed deposits	NA	NA	NA	50.00	[ICRA]A+ (Stable); Put on notice for Withdrawal

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	ASL Ownership	Consolidation Approach
The Andhra Sugars Limited	100.00% (rated entity)	Full Consolidation
Jocil Limited	55.02%	Full Consolidation
The Andhra Farm Chemicals Corporation Limited	76.82%	Full Consolidation
Hindustan Allied Chemicals Limited	77.35%	Full Consolidation
The Andhra Petrochemicals Limited	33.05%	Equity Method

Source: ASL annual report FY2023

Note: ICRA has taken a consolidated view of the parent (ASL), its subsidiaries and associates while assigning the ratings.

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About ICRA Limited:

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