

Harinagar Sugar Mills Limited

Instrument	Amount	Rating Action
Term Loans	Rs. 129.14 crore	[ICRA]A- (positive) Reaffirmed / Outlook revised from 'Stable'
Fund Based Limits	Rs. 280.00 crore	[ICRA]A- (positive) Reaffirmed / Outlook revised from 'Stable'
Non-Fund Based Limits	Rs. 8.71 crore	[ICRA]A1 Upgraded from [ICRA]A2+

ICRA has reaffirmed the long-term rating of [ICRA]A- (pronounced ICRA A minus) and upgraded the short-term rating from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A1 (pronounced ICRA A one) outstanding on the term loans, fund based limits and non-fund based limits of Harinagar Sugar Mills Limited (HSML) aggregating to Rs. 417.85 crore¹². The outlook on the long-term rating has been revised from Stable to Positive.

The revision in rating outlook factors in the expected improvement in the profitability of the company's sugar business driven by firm sugar prices which have benefitted from the decline in all-India sugar production levels in SY2016³, which ICRA expects to further decline in SY2017 following lower sugarcane cultivation in key sugar producing states, viz. Maharashtra and Karnataka. The company's contribution levels from sugar business have also strengthened on account of the increase in recovery rates (10.0% in SY2016 as against 9.2% in SY2015) due to cultivation of better quality of sugarcane. The upgrade of the short-term rating takes into account the improvement in the company's liquidity profile as characterised by sizeable unutilised working capital bank limits, since the company sold its sugar inventory at healthy realisations (~Rs. 35/kg) during H1 FY2017.

The ratings also take into account the existing forward integration of the company's sugar plant into distillery and co-generation operations where the realisation levels continue to remain remunerative. The ratings also factor in the large crushing capacity of the company, benefits of being located in Eastern India which is a sugar deficit zone. The cane pricing followed in Bihar is decided by sugar companies in consultation with the State Government that usually results in lower cane prices than State Advised Price announced in Uttar Pradesh.

The ratings, however, remain constrained by the inherent cyclicity and agro-climatic risks in sugar operations and vulnerability to Government regulations. The ratings also take into account the high working capital intensity inherent in the business and high leveraging levels of the company. The operations of the company's co-generation unit remain exposed to counterparty credit risks pertaining to sale of electricity to Bihar State Electricity Board, though the payments have been timely so far. ICRA notes that the substantial improvement in sugar realisations over the past year could trigger an increase in the sugarcane pricing for SY2017, and thus any sharp increase in sugarcane procurement costs for the company would be a rating sensitivity.

Company Profile

Harinagar Sugar Mills Limited (HSML), incorporated in CY1933 by Late Mr. Narayanlal B. Pittie, is a closely-held company with majority of the shareholding remaining with the Pittie family. The manufacturing facility is located in the West Champaran region of Bihar. HSML started with an initial crushing capacity of 600 TCD (tonnes crushed per day) and gradually increased its crushing capacity to 10,000 TCD. The company also operates a 50 KLPD distillery unit commissioned in March 2008, and a 14.5 MW co-generation unit, commissioned in November 2011. HSML has a subsidiary company called Shangrila Food Products Ltd. which is involved in biscuit manufacturing (with capacity of 23,420 MT per annum) on job-work basis on behalf of Britannia Industries Limited.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ SY refers to Sugar Year i.e. October to September



For FY2016, HSML reported a PAT of Rs. 4.1 crore on an operating income of Rs. 540.5 crore. For FY2015, HSML reported a PAT of Rs. 2.8 crore on an operating income of Rs. 493.5 crore.

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