

SNJ Sugars and Products Limited

Instrument	Amount	Rating Action
	In Rs. Crore	November 2016
Long Term, Term Loans	43.16 (enhanced from 30.84)	[ICRA]BBB+ (Stable) / Upgraded
Long Term, Fund Based Facilities	38.00	[ICRA]BBB+ (Stable) / Upgraded
Long Term, Proposed Facilities	12.00 (revised from 21.16)	[ICRA]BBB+ (Stable) / Upgraded
Short Term, Non Fund Based Facility	3.00 (revised from (3.00))	[ICRA]A2 / Assigned
Short Term, Proposed Facilities	3.84	[ICRA]A2 / Upgraded

ICRA has upgraded the long-term rating assigned to the Rs. 43.16 crore[^] (enhanced from 30.84 crore) term loans, Rs. 38.00 crore long term fund based facilities and Rs. 12.00 crore (revised from 21.16 crore) long term proposed facilities of SNJ Sugars & Products Limited (SNJSP / 'the company') from [ICRA]BBB (pronounced ICRA triple B) to [ICRA]BBB+ (pronounced ICRA triple B plus)[†]. ICRA has also upgraded the short term rating assigned to the Rs. 3.00 crore short term non-fund based facilities of SNJSP from [ICRA]A3+ (pronounced ICRA A three plus) to [ICRA]A2 (pronounced ICRA A two) and also assigned a short term rating of [ICRA]A2 (pronounced ICRA A two) to the 3.84 crore proposed short term facilities of the company. The outlook on the long term rating is stable.

The ratings upgrade reflects the improvement in the outlook for the company's core sugar business, driven mainly by the significant increase in domestic sugar realisations owing to a lower domestic sugar production during SY2016. Expectations of a further decline in domestic sugar production in SY2017 are likely to support the domestic sugar prices in the near term, resulting in healthy contribution margins for the sugar produce. The rating continues to factor in the integrated nature of the sugar mill with production of power, extra neutral alcohol (ENA) and ethanol which provides alternative revenue streams and reduces the impact of the cyclicity of the sugar business to an extent; the healthy financial profile of the company with low gearing and healthy coverage indicators; the financial flexibility enjoyed by the company as a part of the SNJ group and the demonstrated support from the group in the form of equity infusions and the process and machinery improvements undertaken by the company since its acquisition by the SNJ group which has resulted in improved recovery and operational efficiency. The ratings also take into account the capital expenditures incurred for setting up a refinery plant for producing refined sugar, grain-based distillation plant to supplement ENA production, and steam economy system to improve cane crushing process, which are expected to support revenues and margins going forward.

The ratings are, however, constrained by the moderate scale of operations and the low profitability of the sugar segment, given the relatively high cane costs and the low sugar realisations during FY2016. The ratings also factor in the cyclical nature of the industry, the exposure of the sugar operations to agro climatic risks of sugar cane availability and recovery and to regulatory risks in terms of pricing, exports and other policies in sugar as well as the associated products, and the working capital intensive nature of the company's operations. ICRA also notes that the company has significant debt repayment obligations over the next three years for the capital expenditure incurred. Additionally, the company is also exposed to the risk of cost and time overruns in the capital expenditure programmes. Going forward, the linking of cane costs to actual realisations of sugar and its by-products remains critical for maintaining the profitability of the sugar mills.

Company Profile

SNJ Sugars & Products Limited is an integrated sugar manufacturer located in Chittoor district of Andhra Pradesh. Set up in 1994, SNJSP has a sugar extraction plant with a capacity of 4000 TCD. The company also has facilities for distilling Extra Neutral Alcohol with a capacity of 70 KLPD and Ethanol upto 40 KLPD and operates a 20 MW multi fuel cogeneration plant. The company has installed a facility for refining sugar with a

[^] 1 crore = 100 lakh = 10 million

[†] For a complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.



capacity of 100 tons per day (TPD) as well as installed steam economy system for cane crushing to improve the capacity utilisation and is in the final stages of completing grain based distillation plant for ENA production. The company's operations are managed by Mr. S N Jayamurugan. SNJSP is part of the SNJ group which also consists of SNJ Breweries Pvt. Ltd. (rated [ICRA]BBB (Stable)) and SNJ Distillers Pvt. Ltd (Rated [ICRA]BBB(Stable)).

As per FY2016 financials, the company reported a profit after tax of Rs. 3.5 crore on an operating income of Rs. 140.4 crore as against a net profit of Rs. 6.9 crore on an operating income of Rs. 234.1 crore in FY2015 (18 month period from Oct 2013 to Mar 2015). The company has achieved an operating income of Rs. 83.7 crore, as per the 6 months FY2017 provisional financials.

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