Shree Ambika Sugars Limited

Instrument	Amount	Rating Action
	In Rs. Crore	**November 2016**
Long Term Non Fund Based Limits	527.67	[ICRA]B; upgraded from [ICRA]D
Term Loans/Fund Based	34.63 (reduced from 484.45)	[ICRA]B; upgraded from [ICRA]D
Proposed Fund Based Limits	Nil (reduced from 27.85)	-
Short Term Non Fund Based Limits	Nil (reduced from 40.87)	-
Proposed Non Fund Based Limits	Nil (reduced from 9.13)	-

*term loans, fund based limits, non fund based limits and proposed non fund based limits have been reallocated to long term non fund based limits

ICRA has upgraded the long term rating to [ICRA]B (pronounced ICRA B) from [ICRA]D (pronounced ICRA D) to Rs. 527.67 crore[1] non fund based limits and Rs. 34.63 crore term loan/fund based limits (Rs. 230.45 crore term loans, Rs. 254.00 crore fund based facilities, Rs. 27.85 crore proposed fund based facilities, Rs. 40.87 crore short term non fund based limits and Rs. 9.13 crore short term proposed non fund based limits are reallocated) of Shree Ambika Sugars Limited (SASL)[†].

ICRA's rating action follows the timely servicing of debt obligations by the company over the last three months.

ICRA takes note of the improvement in outlook for Company's core sugar business operations on the back of increase in in the domestic sugar realizations supported by lower domestic sugar production during SY2016, exports of 1.6 million MT and the expectations of further decline in the domestic sugar production in SY2017. This is expected to support the contribution margins from sugar produce in the near term. Further, SASL is likely to report gains on the closing sugar inventory as on March 31, 2016 during FY2017 with the average sugar prices prevailing around Rs. 33,500/MT. SASL has replaced most of the high cost term loans and the entire working capital facilities by low cost trade advances (backed by export performance bank guarantee against future sugar export obligation) which is expected to result in significant reduction in the interest expenses. While ICRA takes note of the improved sugar realizations, any significant increase in the profitability and debt coverage metrics of SASL is linked to the quantum of increase in the cane crushing volumes, from a low level of 7.30 lakh MT in FY2016 in relation to the company's crushing capacity. Further, the cash accruals are expected to be lower than the debt repayment along with the trade advance obligation during FY2017. However, upfront interest and commission payment for FY2017 and ability to liquidate stocks without drawing power restrictions, offer some comfort from the debt servicing perspective. The rating continues to factor in SASL's fully integrated nature of operations with cogeneration and distillery units which provide alternate revenue streams and some cushion against cyclicality in sugar business. The rating also takes into consideration SASL's experienced management, the dominant position of the company in its command area and proximity of the plants of the company to ports which it has used favorably to export sugar in the recent past. ICRA also takes note of the options being explored by the company to mitigate the impact of cyclicality in the sector by entering into contract manufacturing, but the plans are in incipient stage and the translation of efforts into improvement in financial performance remains to be seen.

The rating remains constrained by the weak capital structure of the Company on the back of steep erosion of net worth witnessed due to continued losses during FY2014-FY2016, which coupled with high outside liabilities (which include total debt, trade advances and creditors) has resulted in high total outside liabilities/ tangible net worth of 5.98 times as on March 31, 2016. Also, significant pending dues from TNEB[2] pertaining to power sales, has further accentuated the already high working capital intensive nature of operations. As a result, resolution of the tariff related issue with TNEB and timely receipt of the pending power receivables/arrears

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[1] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.
[2] Tamil Nadu Electricity Board

coupled with the realization from the other current assets would be critical from a credit perspective. The rating is also constrained by the company's exposure to forex fluctuation on the trade advance availed against future sugar exports given that the equivalent amount must be repaid in USD in the event of the company not honoring the sugar export obligation. The rating also considers the vulnerability of sugar operations to agro climatic variations and government policies relating to cane pricing and exports.

Company Profile
Shree Ambika Sugars Limited, is part of Thiru Arooran group, and was incorporated in 1988. Its sugar plants are based in Cuddalore and Thanjavur districts of Tamil Nadu. It has 11,500 TCD of cane crushing capacity, 56 MW cogeneration unit and 60 klpd distillery. It also has 750 TPD sugar refinery.

Recent Results
According to unaudited financials of FY2016, SASL reported an operating income of Rs. 360.31 crore and net loss of Rs. 27.68 crore as against operating income of Rs. 305.08 crore and net loss of Rs. 54.60 crore in FY2015.

November 2016

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