

## SNJ Sugars & Products Limited

February 19, 2018

### Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based TL	43.16	43.16	[ICRA]BBB+(stable); Reaffirmed
Long Term - Fund Based/ CC	38.00	50.0	[ICRA]BBB+(stable); Reaffirmed
Long Term - Unallocated	12.00	0.0	-
Short Term - Unallocated	3.84	3.84	[ICRA]A2; Reaffirmed
Short Term - Non Fund Based	3.00	3.00	[ICRA]A2; Reaffirmed
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) and short-term rating of [ICRA]A2 (pronounced ICRA A two) to the Rs. 100-crore bank lines of SNJ Sugars & Products Limited (SNJSPL). The outlook on the long-term rating is Stable.

### Rationale

The ratings reaffirmation takes into consideration the comfortable financial risk profile of the company, as illustrated by adequate profitability and debt-protection metrics in FY2017. The ratings also factor in the significant increase in top-line in 9M FY2018 on account of commencement of operations in grain-based distillery and favourable demand-supply situation for sugar in Andhra Pradesh/ Tamil Nadu region. With higher sugar prices in 9M FY2018, the company was able to clear the sugar stock at favourable rates, which in-turn is expected to result in improved profitability in FY2018.

The ratings also continue to factor in the integrated nature of the sugar mill with production of power, extra neutral alcohol (ENA), and ethanol, as well as the proposed Indian-Made Foreign Liquor (IMFL) bottling unit, which provide alternative revenue streams and reduce the impact of cyclical nature of the sugar business to an extent. ICRA also notes 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 which resulted in improved recovery and operational efficiency.

The ratings, however, remain constrained by the cyclical nature of the industry, exposure of sugar operations to agro-climatic risks of sugar cane availability and to regulatory risks in terms of cane cost, inventory holding and import/export duties. With anticipated increase in sugar production, especially in Maharashtra and Uttar Pradesh, sugar realisation in southern states has witnessed significant downward pressure in January and February 2018. Though the recent measures taken by the government has arrested the price decline, the sustainability of the same, going forward, remains to be seen. The ratings also continue to remain constrained by the moderate scale of operations with limited geographical and customer diversification.

## Outlook: Stable

The Stable outlook reflects ICRA's expectation that SNJSPL will continue to benefit from the extensive experience of its promoters, diversified revenue stream and efficient operations of the plant. The outlook may be revised to Positive if the sugar price remains stable going forward, translating into sustenance of the company's profitability, and if the IMFL plant commences operations, resulting in significant diversification in revenue streams. The outlook may be revised to Negative if sugar prices decline significantly and affect cash accrual, or stretch in the working capital cycle weakens liquidity.

## Key rating drivers

### Credit strengths

**Integrated nature of operations results in diversified revenue stream** – Integrated nature of the company's operations has resulted in diverse revenue mix from production of power, extra neutral alcohol (ENA) from molasses and grain, ethanol. These segments, contributing to around 21% of total revenue in FY2017, help in stabilising any volatility of operating margins and operating revenue.

**Higher recovery rate and elevated sugar prices result in improved performance in FY2017 and 10M FY2018** – The recovery rate was higher at 9.4% in FY2017 against 9.3% in FY2016 and is expected to improve further in FY2018. The realisation from sugar sale was high at Rs. 35,260/MT for sugar sold in FY2017 against Rs. 27,079/MT of sugar sold in FY2016. In the current year for 10M FY2018, the realisation from sale of sugar remained healthy at Rs. 37,893/MT for 48,088 MT of sugar sold by the company in 10M FY2018.

**Financial profile marked by healthy profitability and adequate debt-protection metrics** – Despite cyclicity in the sugar sector, profit-margin of the company has remained at healthy levels over the years. However, the return-on-capital employed has remained low on account of low capacity utilisation and on-going capital expansion. Supported by healthy profitability and relatively low borrowing, debt-protection metrics have also remained adequate over the years.

### Credit weaknesses

**Exposure to cyclical trends in sugar business; vulnerability to the Government/regulatory policies** – Profitability of sugar mills remain vulnerable to the cyclical nature of the sugar industry and agro-climatic risks related to cane production. ICRA anticipates an increase in sugar production by around 23% in SY2018, mainly driven by an expected recovery in sugar production in key sugar-producing states – Maharashtra, and Karnataka. Sugar prices, which has declined considerably in Q3/Q4-FY2018, has stabilised after regulatory changes on stocking levels and import duty. However, going forward, effectiveness of these measures in stabilising the sugar prices remains to be seen.

**High working-capital intensity, characterised by high inventory holdings** – The company's working-capital intensity remains high as on March 31, 2017 on account of high inventory holdings. As inherent in sugar industry, the operations and in-turn working-capital requirement are seasonal, resulting in stretched working-capital metrics during the peak season.

**Operations characterised by geographic and customer concentration** – The company, which operates the sugar-mill in a single location, Chittoor district in Andhra Pradesh, remain vulnerable to agro-climatic and political risks associated with the region. Similarly, the customer concentration remains high, with target customer segments being public-sector undertakings from Andhra Pradesh and Tamil Nadu. However, the company is actively diversifying its clientele, especially in the value-added sugar segment.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

[Sugar Industry](#)

### About the company:

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 4,000 TCD. The company also has facilities for distilling Extra Neutral Alcohol with a capacity of 70 KLPD and Ethanol up to 40 KLPD and operates a 20-MW multi-fuel cogeneration plant. The company has installed a facility for refining sugar with a capacity of 100 tonne per day (TPD) as well as installed steam economy system for cane crushing to improve the capacity utilisation. The company is closely held and managed by Mr. S N Jayamurugan, and is a part of the SNJ Group. Other key entities in the SNJ Group include SNJ Breweries Pvt. Ltd. and SNJ Distillers Pvt. Ltd.

### Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	140.4	167.0
PAT (Rs. crore)	3.5	8.1
OPBDIT/ OI (%)	13.3%	14.6%
RoCE (%)	5.2%	7.1%
Total Debt/ TNW (times)	0.5	0.6
Total Debt/ OPBDIT (times)	3.8	3.8
Interest coverage (times)	2.9	4.0
NWC/ OI (%)	79.4%	56.7%

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for last three years:

Instrument	Type	Current Rating (FY2018)		Date & Rating Feb 2018	Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		Date & Rating in FY2017 Nov 2016	Date & Rating in FY2016 Oct 2015	Date & Rating in FY2015 -
Fund Based TL	Long Term	43.16	37.45*	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	
Long Term - Fund Based/ CC	Long Term	50.0	-	[ICRA]BBB+ (stable)	[ICRA]BBB+ (stable)	[ICRA]BBB - (stable)	
Long Term - Unallocated	Long Term	0.0	-	-	[ICRA]BBB+ (stable)	[ICRA]BBB (stable)	
Short Term - Unallocated	Short Term	3.84	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	
Short Term - Non Fund Based	Short Term	3.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	

\*as on 31.03.2017

## Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Long Term - Fund Based TL	August 2012	NA	Sept 2017	2.21	[ICRA]BBB+(stable)
	Long Term - Fund Based TL	June 2013	NA	FY2019	5.16	[ICRA]BBB+(stable)
	Long Term - Fund Based TL	March 2014	NA	FY2019	7.07	[ICRA]BBB+(stable)
	Long Term - Fund Based TL	August 2015	NA	FY2023	8.72	[ICRA]BBB+(stable)
	Long Term - Fund Based TL	March 2016	NA	FY2023	8.00	[ICRA]BBB+(stable)
	Long Term - Fund Based TL	March 2016	NA	FY2023	12.00	[ICRA]BBB+(stable)
	Long Term - Fund Based/ CC	NA	NA	NA	50.0	[ICRA]BBB+(stable)
	Long Term - Unallocated	NA	NA	NA	0.0	[ICRA]BBB+(stable)
	Short Term - Unallocated	NA	NA	NA	NA	[ICRA]A2;
	Short Term - Non Fund Based	NA	NA	NA	NA	[ICRA]A2;

Source: SNJSPL

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

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