September 28, 2021

The Andhra Sugars Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	140.00	78.00	[ICRA]A+ (Stable); reaffirmed
Fund based - Unallocated	10.00	22.00	[ICRA]A+ (Stable); reaffirmed
Non-fund based-Working Capital Facilities	100.00	46.80	[ICRA] A1+; reaffirmed
Non – fund based unallocated limits	0.00	13.20	[ICRA] A1+; reaffirmed
Total	**250.00**	**160.00**	
Fixed Deposits	**250.00**	**125.00**	MAA- (Stable); reaffirmed

**Instrument details are provided in Annexure-1*

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, which improved to 0.1 time on a standalone and consolidated basis as on March 31, 2021 from 0.2 time and 0.3 time on consolidated and standalone basis, respectively, as on March 31, 2020. The standalone financial profile of ASL is also characterised by healthy profitability levels resulting in strong debt protection metrics. However, profit margins, although healthy, witnessed moderation in FY2021 due to moderation in the ECU realisations impacting the chlor-alkali division and decline in cane crushing further weakening the sugar division profit margins. While the financial performance of the subsidiaries remained largely stable and that of the associate witnessed improvement in FY2021, consolidated financial profile, although healthy, witnessed YoY moderation in FY2021 in line with moderation in standalone performance. Nevertheless, coverage indicators at standalone and consolidated levels continued to remain comfortable in FY2021. The ratings also factor in ASL's strong liquidity profile, as evident from the liquid investments and free cash balances of Rs. 186.5 crore and Rs. 166.7 crore on consolidated and standalone basis ,respectively, as on March 31, 2021 and 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.

ASL's ratings, however, are constrained by lower cane availability in its catchment area as farmers have shifted to other remunerative crops leading to further decline in crushing levels in SY2021. The crushing volumes and, thereby, the sugar division utilisation are 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 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, the healthy liquidity profile and the commitment to 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 chemicals division, which includes caustic soda, caustic potash, sulphuric acid, chlorine, hydrochloric acid, and industrial alcohol, etc, accounts for a major part of the revenues (81% of the total revenues in FY2021, while the sugar division accounts for 14%).

Robust capital structure and strong debt coverage metrics – ASL's capital structure is robust and is characterised by low gearing of 0.1 time on a standalone and consolidated basis as on March 31, 2021. Despite the moderation in profitability in FY2021, debt coverage metrics remained healthy with interest cover of 8.1 times and 7.5 times and total debt/ operating profit of 0.7 time and 0.8 time on consolidated and standalone basis, respectively, in FY2021.

Credit challenges

Exposed to volatility in ECU realization, which witnessed moderation in recent fiscals - The international caustic soda prices have moderated over the past two years and the same is reflected in the domestic caustic soda prices as well, pushing down the ECU realisations for chlor-alkali manufacturers. This resulted in a decline in the profitability of the chlor-alkali segment to 17% in FY2021 and 28% in FY2020 from 37% in FY2019, weighing down on the overall performance of the company. However, the caustic soda prices have witnessed recovery so far in FY2022, which if sustained can lead to improvement in the segment's profitability and ASL's overall performance.

Sub-optimal cane crushing levels - Cane availability in ASL's catchment area has been at low levels over the last few 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 in FY2021. The sugar unit in Tanuku was closed earlier in FY2016. The cane crushing is expected to remain subdued in the near term as well.

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

Liquidity position: Strong

ASL's liquidity is strong, given the significant free cash balances and the liquid investments to the tune of Rs. 165.7 crore (standalone) and Rs. 186.5 crore (consolidated) as on March 31, 2021 and the significant cushion available in the fund-based working capital limits at standalone level, with modest average utilisation of ~1% in FY2021. While ASL has a capex plan of ~Rs 200 crore to be incurred in FY2022 and H1 FY2023 and has a repayment obligation of Rs. 88 crore of fixed deposit and deferred sales tax loan obligations in FY2022, these are expected to be comfortably met through cash balance available and cash accruals from operation.

Rating sensitivities

Positive factors – Significant improvement in consolidated revenue and profitability while maintaining the healthy capital structure and coverage indicators may trigger a rating upgrade.

Negative factors – Negative pressure on the rating could arise if there is decline in revenue or profitability on a sustained basis, any stretch in working capital cycle impacting liquidity, or if the company incurs larger than expected debt-funded capex impacting the 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 Chemicals Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASL. As on March 31, 2021, the company had three subsidiaries and an associate, which are all enlisted in Annexure-2.

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 along with 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, namely sugar and allied products (including co-products like bagasse and molasses, co-generation and distillery operations); chlor-alkali products like caustic soda and its co-products, caustic potash and its co-products; other industrial chemical liquid propellants, and other related products, solid and liquid rocket propellants for the Indian Space Research Organisation (ISRO); power generation; and other products, including cattle feed.

Key financial indicators (audited)

ASL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	1,480.4	1,513.1
PAT (Rs. crore)	205.9	115.1
OPBDIT/OI (%)	19.1%	14.7%
PAT/OI (%)	13.9%	7.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	0.9	0.7
Interest Coverage (times)	9.8	8.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

ASL Standalone	FY2020	FY2021
Operating Income (Rs. crore)	1,040.7	949.7
PAT (Rs. crore)	190.2	102.1
OPBDIT/OI (%)	25.0%	20.5%
PAT/OI (%)	18.3%	10.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDIT (times)	1.0	0.8
Interest Coverage (times)	9.4	7.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Sep 28, 2021	Sep 14, 2020	Aug 13, 2019	Jul 20, 2018
1	Fund-based working capital limits	Long-term	78.00		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
2	Non-fund based working capital limits	Short-term	46.80		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund based - Unallocated limits	Long-term	22.00		[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)
4	Non-Fund based - Unallocated limits	Short-term	13.20		[ICRA]A1+	-	-	-
5	Fund-based term loans	Long-term	0.00		-	-	-	[ICRA]A+ (Positive)
6	Fixed deposits	Medium-term	125.00		MAA- (Stable)	MAA- (Stable)	MAA- (Positive)	MAA- (Positive)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based working capital limits	Simple
Non-fund based working capital limits	Very Simple
Fund based - Unallocated limits	Not applicable
Non-Fund based - Unallocated limits	Not applicable
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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
-	Fund-based working capital limits	NA	NA	NA	78.00	[ICRA]A+ (Stable)
-	Non-fund based working capital limits	NA	NA	NA	46.80	[ICRA]A1+
-	Fund based - Unallocated limits	NA	NA	NA	22.00	[ICRA]A+ (Stable)
-	Non-Fund based - Unallocated limits	NA	NA	NA	13.20	[ICRA]A1+
-	Fixed deposits	NA	NA	1-3 years	125.00	MAA- (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL 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	77.35%	Full Consolidation
Hindustan Allied Chemicals Limited	76.82%	Full Consolidation
The Andhra Petrochemicals Limited	33.05%	Equity method

Source: *ASL annual report FY2021*

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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.

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