October 07, 2021 (Revised)

Mawana Sugars Limited: [ICRA]BBB (Stable)/[ICRA]A3+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities	300.00	[ICRA]BBB (Stable)/[ICRA]A3+; Assigned
Proposed Working Capital Facilities	50.00	[ICRA]BBB (Stable)/[ICRA]A3+; Assigned
Issuer Rating	-	[ICRA]BBB (Stable); Outstanding
Total	**350.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned rating factors in Mawana Sugars Limited's (MSL or the company) long and established track record in the sugar industry, and the expected improvement in credit metrics following the reduction in long-term debt levels in FY2021. The consideration of ~Rs. 148.00 crore (net gain of ~Rs. 112.00 crore) received from the sell-off of the chemical unit in FY2021 has helped MSL to deleverage its balance sheet. The company also benefits from its forward-integrated sugar plant, comprising 120 kilo litre per day (KLPD) distillery and 53.5 mega-watt (MW) co-generation capacities. Further, the company's performance is expected to improve going forward due to higher production of ethanol through the B-heavy route and the firmed-up sugar prices in the domestic and international markets.

The rating, however, is constrained by the company's moderate return indicators and the high working capital intensity during the peak season as witnessed in other sugar companies. The rating also considers the fact that the companies in the sugar industry are exposed to the inherent cyclicality in the sugar industry, the agro-climactic risks related to cane production, and the Central Government's policies on sugar trade and pricing of cane, sugar and ethanol. ICRA also notes that the company had recognised ~Rs. 442.00 crore under contingent liabilities as on March 31, 2021, pertaining to the demand of interest on delayed payments of cane dues. While the management is of the view that such interest has been recognised as a conservative accounting principle and is usually waived off by the authorities, any potential crystallisation of contingent liability remains an event risk.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that the company will continue to benefit from its established position in the sugar industry while maintaining the recent improvement in its credit metrics.

Key rating drivers and their description

Credit strengths

Established track record in sugar industry - The company has a long track record in the sugar industry spanning more than three decades. The company's board comprises qualified individuals with significant experience in the industry.

Integrated sugar operations - The company benefits from its forward-integrated sugar plant, comprising 120 KLPD distillery and 53.5 MW co-generation capacities. Ethanol produced in the distillery is procured by the oil marketing companies (OMCs) at remunerative rates (Rs. 57.61/litre for B-heavy ethanol) decided by the government and ~30-35% of the total power units generated through the co-generation plant are exported to Uttar Pradesh Power Corporation Limited (UPPCL). The revenue from the distillery unit was Rs. 173.55 crore and that from the cogeneration unit was Rs. 22.97 crore in FY2021; the revenue from the distillery unit is expected to increase from this fiscal, with the company's increasing focus on producing ethanol through the B-heavy molasses.

Improvement in financial risk profile - The company's long-term bank debt reduced to Rs. 104.66 crore in FY2021 from Rs. 319.72 crore in FY2020 supported by the sell-off of the chemical unit in FY2021. Further, the company's performance is expected to improve going forward due to higher production of ethanol through the B-heavy route and the firmed-up sugar prices in the domestic and international markets. With the reduction in debt levels and the improvement in profit margins, the company's debt-coverage metrics are expected to significantly improve going forward with expected interest coverage of ~4.0 times, Total Debt/OPBDITA of ~2.9 times and DSCR of ~2.0 times in FY2022. Also, the company's capital structure is expected to remain comfortable owing to the healthy net worth base.

Credit challenges

Moderate return indicators and the high working capital intensity during peak season - The company's profitability metrics are average, as indicated by the operating profit margin of 6.60% in FY2021, which improved from 4.65% in FY2020 (excluding the chemical business). The company's RoCE is also expected to stay at average levels in the range of ~9.70-10.60% over FY2022-FY2024 owing to moderate profitability.

Further, the company's working capital intensity is pushed upwards majorly by the higher sugar inventory during the peak season, resulting from the increased crushing.

Exposure to agro-climatic risks and cyclical trends in sugar business - Being an agri-commodity, the sugar cane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, sugar prices derive support from the minimum selling price (MSP) for sugar set by the Central Government since June 2018. Over the long term, higher ethanol production with increased usage of B-heavy molasses and direct sugarcane juice is expected to help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Vulnerability to Government/regulatory policies - The sugar industry is highly regulated, with various Government Acts governing virtually all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and byproduct pricing. Thus, the company's operations remain vulnerable to any unfavourable changes in government policies. Typically, the profitability of sugar entities is driven by sugar realisations and cane procurement costs. While sugar realisations are mainly market driven, subject to floor price levels, the government fixes the fair and remunerative price (FRP)/ state administered price (SAP) for cane. Thus, any adverse movements in the sugarcane pricing may impact the contribution margins and, hence, the profitability of sugar mills.

Liquidity position: Adequate

MSL's liquidity position is adequate; the company's annual cash flow from operations are expected to be comfortable against the debt repayment obligations (~Rs. 30-37.00 crore over FY2022-FY2023). Further, the company's free cash and bank balances were healthy at ~Rs. 90.00 crore as on March 31, 2021, with no major capex plans in FY2022. Notwithstanding this, over the 21-month period from October 2019 to June 2021, the company's average working capital limit utilisation remained high at ~88% against the sanctioned limits. Also, as any other typical sugar mill, the company holds substantial year-end sugar inventory, and its liquidation at remunerative pricing remains vital as far as the liquidity position is concerned.

Rating sensitivities

Positive factors:

- Improvement in profitability while maintaining the scale of operations, thereby leading to improvement in key credit metrics; interest coverage of 4 times or above on a sustained basis
- Improvement in working capital cycle and liquidity position

Negative factors:

- Significant deterioration in scale and profitability leading to deterioration in key credit metrics; interest coverage of 2.5 times or below on a sustained basis
- Significant crystallisation of the contingent liabilities, which mainly include interest on late payment of cane dues
- Significant debt-funded capex or stretch in working capital cycle adversely impacting the liquidity profile of the company

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on the consolidated financials of Mawana Sugars Limited, its subsidiaries and associate concern (equity method). The list of the entities is given in Annexure-2

About the company

Formerly known as Siel Limited, Mawana Sugars Limited (MSL) was founded by Shriram Enterprises in 1949 and later emerged as an independent entity in 1989 with the restructuring of the erstwhile DCM Group. MSL is now part of the Siddharth Shriram Group. MSL was merged with Siel Ltd. (a Siddharth Shriram group company involved in manufacture of chlor alkali chemicals) as per the order of Hon'ble High Court of Delhi dated September 11, 2007 (the merger was effective w.e.f. October 1, 2006.) Subsequently, the name of the company was changed to Mawana Sugars Limited with effect from January 4, 2008.

The company has two operating sugar plants, viz., Mawana Sugar Works (MSW) and Nanglamal Sugar Complex (NSC), with cane crushing capacities of 13000 and 6000 TCD respectively. These plants are in Meerut, Western Uttar Pradesh. Both the units have combined cogeneration capacity of 53.5 MW. The Nanglamal Sugar Complex unit also has a distillery with a capacity of 120 KLPD.

The company manufactured Chlor-Alkalies chemicals such as Caustic Soda, Chlorine, and Hydrogen at its facility named Siel Chemical Complex (SCC) in Rajpura, Punjab. Pursuant to the approval of the company's board of directors in the meeting held on February 09, 2021, subsequently approved by the shareholders of the company through postal ballot and vide business transfer agreement dated February 09, 2021, the company sold its chemical business and transferred the assets of Siel Chemical Complex to Bodal Chemicals Limited, Ahmedabad on a going concern basis. This was done at a consideration of Rs. 148.44 crore.

Subsidiaries and associate concerns:

Name of firm/business	Nature of the Firm	Shareholding of MSL		
		As on March 31, 2021	As on March 31, 2020	
Siel Industrial Estate Limited	Subsidiary	100.00%	100.00%	Non-operational company. Intends to invest in real estate business.
Siel Infrastructure & Estate Developers Private Limited	Subsidiary	100.00%	100.00%	Has invested in Siel Industrial Estate Limited.
Siel Financial Services Limited**	Subsidiary	75.00%** (currently nil)	93.56%	Was a nonoperational company. MSL has completely sold its stake as on date.
Mawana Foods Private Limited	Associate (Rest of the share is with Usha International Limited)	33.74%	33.74%	Retail business of sugar, edible oils and soap.

Source: company

** MSL reduced its shareholding in Siel Financial Services Limited (SFSL) in FY2021 to 75.00% from 93.56% by sale of 21,05,568 equity shares at BSE through process of 'Offer for Sale' to comply with the 'Minimum Public Shareholding' requirement of SFSL. MSL also entered into a share purchase agreement dated February 25, 2021 to sell its entire remaining shareholding at a mutually agreed consideration of Rs. 0.11 crore (amount shown as advances and investment shown as assets held for sale in FY2021 balance sheet). The amount has been received by MSL as on date. So, the current shareholding of MSL in SFSL is nil.

Siel Infrastructure & Estate Developers Private Limited is a Systematically Important Non Deposit Taking Core Investment Company and has invested in the equity shares of Siel Industrial Estate Limited which is its associate and also fellow subsidiary of MSL. Siel Industrial Estate Limited, the investee, intends to invest in real estate business. Siel Infrastructure & Estate Developers Private Limited is still in the process of planning and charting out its course of action to commence its operations.

Key financial indicators

	FY2020	FY2021
Operating Income (Rs. crore)	1,397.8	1,468.9
PAT (Rs. crore)	(81.3) *	73.6
OPBDIT/OI (%)	5.4%	6.6%
RoCE (%)	2.4%	19.9%
Total Outside Liabilities/Tangible Net Worth (times)	3.7	2.6
Total Debt/OPBDIT (times)	6.5	2.9
Interest Coverage (times)	3.0	2.7
DSCR (times)	0.9	1.2

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

* *The OPBDIT was Rs. 75.2 crore in FY2020. The The profit before tax in FY2020 stood at Rs. (8.6) crore. As the company decided to opt for reduced rates as per section 115BAA of the Income Tax Act, 1961, it remeasured its deferred tax balances on March 31, 2020. Consequently, deferred tax expense of Rs. 26.9 crore was charged to statement of profit and loss and MAT assets of Rs. 44.4 crore were written off during the year, resulting in PAT of Rs. (81.3) crore.*

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 Mar 31, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Oct 07, 2021	Sep 07, 2021	-	-	-
1	Working Capital Facilities	Long-term/Short-term	300.00		[ICRA]BBB (Stable)/[ICRA] A3+	[ICRA]BBB (Stable)	-	-	-
2	Proposed Working Capital Facilities	Long-term/Short-term	50.00		[ICRA]BBB (Stable)/[ICRA] A3+	[ICRA]BBB (Stable)			
3	Issuer Rating	Long-term	-		-	[ICRA]BBB (Stable)			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working Capital Facilities (Pledge Loan)	Simple
Proposed Working Capital Facilities (Pledge Loan)	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: Click Here

Annexure-1: Instrument details

Bank Name/ ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
U.P. Co-operative Bank Ltd.	Working Capital Facilities	NA	NA	NA	300.00	[ICRA]BBB (Stable)/[ICRA]A3+
NA	Proposed Working Capital Facilities	NA	NA	NA	50.00	[ICRA]BBB (Stable)/[ICRA]A3+
NA	Issuer Rating	NA	NA	NA	NA	[ICRA]BBB (Stable)

Annexure-2: List of entities considered for consolidated analysis - Not applicable

Company Name	Ownership	Consolidation Approach
Siel Financial Services Limited	75.00%*	Full Consolidation
Siel Industrial Estate Limited	100.00%	Full Consolidation
Siel Infrastructure & Estate Developers Private Limited	100.00%	Full Consolidation
Mawana Foods Private Limited	33.74%	Equity Method

** nil as on date*

Corrigendum

Details of lenders have been updated in Annexure 1

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About ICRA Limited:

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