

September 30, 2022

## The Andhra Sugars Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Working capital facilities	78.00	78.00	[ICRA]A+ (Stable); reaffirmed
Long-term – Fund-based – Unallocated	22.00	22.00	[ICRA]A+ (Stable); reaffirmed
Short-term – Non fund-based working capital facilities	46.80	46.80	[ICRA] A1+; reaffirmed
Short-term – Non fund-based– Unallocated	13.20	13.20	[ICRA] A1+; reaffirmed
<b>Total</b>	<b>160.00</b>	<b>160.00</b>	
Fixed deposits	125.00	50.00	[ICRA]A+ (Stable); reaffirmed

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation of The Andhra Sugars Limited (ASL) considers its diversified and integrated operational profile, robust leverage and coverage metrics and a strong liquidity position. ASL has a robust capital structure characterised by low gearing due to the very low debt levels. The standalone financial profile of ASL is also characterised by healthy profitability levels, resulting in strong debt protection metrics. The operating profitability, although healthy, witnessed a slight moderation in FY2022 with the decline in the profitability of the chemical and soap segments, drop in recovery rate and low cane crushing which weakened the profit margins of the sugar division. However, the NPM improved in FY2022 with the decrease in interest expenses and rise in non-operating income.

The financial performance of the subsidiaries also remained stable and that of the associate improved in FY2022. However, the consolidated financial profile, though healthy, witnessed a YoY moderation of OPM in FY2022 in line with the standalone profitability. Nevertheless, the coverage indicators, at the standalone and consolidated levels, continued to be comfortable in FY2022. The ratings also factor in ASL's strong liquidity profile, evident from the liquid investments and free cash balances of Rs. 142.44 crore on a consolidated basis and Rs. 139.99 crore on a standalone basis as on March 31, 2022, and the 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 the lower cane availability in its catchment area as farmers have shifted to other remunerative crops, leading to low crushing levels in the last few years. The crushing volumes and, thereby, the sugar division's 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 the 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, healthy liquidity profile and the commitment towards 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 chemical division, which includes caustic soda, caustic potash, sulphuric acid, chlorine, hydrochloric acid, and industrial alcohol, etc, accounts for a major part of the revenues (79% of the total revenues in FY2022), while the sugar division makes up for 13%.

**Robust capital structure and strong debt coverage metrics** – ASL's capital structure is robust and characterised by low gearing of 0.04 times on a standalone basis and 0.03 times on a consolidated basis as on March 31, 2022. Despite the slight moderation in operating profitability in FY2022, the debt coverage metrics remained healthy with interest cover of 20.6 times (consolidated) and 19.4 times (standalone) and total debt/ operating profit of 0.2 times on both consolidated and standalone basis in FY2022.

### Credit challenges

**Exposed to volatility in ECU realisation**– The ECU realisations have been volatile in the past. International caustic soda prices moderated in FY2020 and FY2021. However, in FY2022, global caustic soda prices witnessed an overall uptrend and are expected to sustain in FY2023. Also, apart from good demand from detergent manufacturers and the textile and paper industry, tight supplies from producing belts also increased caustic soda prices in FY2022. This improved the profitability (PBIT%) of the caustic soda segment to 23% in FY2022 from 20% in FY2021, which if sustained can push up the segment's profitability and ASL's overall performance.

**Sub-optimal cane crushing levels** - Cane availability in ASL's catchment area has been low 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, Andhra Pradesh, in FY2021. The sugar unit at Tanuku, Andhra Pradesh, was closed earlier in FY2016. Of the three units, the company is operating only one unit at present. 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 cyclicity of the sugar industry, agro-climatic risks related to cane production and Government policies related to sugar trade, cane cost and sugar realisation. The chemical business is exposed to currency fluctuations and duty structures apart from the cyclicity associated with global and domestic demand-supply balance.

### Liquidity position: Strong

ASL's liquidity is strong, given the significant free cash balances and liquid investments of Rs. 139.99 crore (standalone) and Rs. 142.44 crore (consolidated) as on March 31, 2022 and the significant cushion available in the fund-based working capital limits at a standalone level, with a modest average utilisation of ~1% in FY2022. While ASL has a capex plan of ~Rs. 120-130 crore to be incurred in FY2023 and has a moderate repayment obligation of fixed deposit and deferred sales tax loan obligations in FY2023, these are expected to be comfortably met through the cash balance available and cash accruals from operations.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded if there is a significant improvement in the consolidated revenue and profitability amid a healthy capital structure and coverage indicators.

**Negative factors** – Negative pressure on the ratings could arise if the revenue or profitability declines on a sustained basis, or if any stretch in the working capital cycle impacts the liquidity. The ratings may also be downgraded if the company incurs a larger than expected debt-funded capex that will impact its capital structure.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in the Sugar Industry</a> <a href="#">Rating Methodology for Entities in the Chemicals Industry</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASL. As on March 31, 2022, 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 and 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 (i) sugar and allied products (including co-products like bagasse and molasses, co-generation and distillery operations) (ii) chlor-alkali products like caustic soda and its co-products, caustic potash and its co-products (iii) industrial chemical liquid propellants and other related products, solid and liquid rocket propellants for the Indian Space Research Organisation (ISRO) (iv) power generation and other products, including cattle feed.

## Key financial indicators (audited)

ASL Consolidated	FY2021	FY2022
Operating income	1,516.6	1,978.0
PAT	115.1	167.9
OPBDIT/OI	14.8%	14.1%
PAT/OI	7.6%	8.5%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.7	0.2
Interest coverage (times)	8.2	20.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

ASL Standalone	FY2021	FY2022
Operating income	951.5	1,220.0
PAT	102.1	161.7
OPBDIT/OI	20.7%	20.3%
PAT/OI	10.7%	13.3%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.8	0.2
Interest coverage (times)	7.6	19.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

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

**Any other information: None**

**Rating history for past three years**

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Sep 30, 2022	Jun 07, 2022	Sep 28, 2021	Sep 14, 2020	Aug 13, 2019
1 Fund-based bank working capital facilities	Long term	78.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)
2 Non fund-based bank working capital facilities	Short term	46.80	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3 Fund-based bank unallocated limits	Long term	22.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Positive)
4 Non fund-based bank unallocated limits	Short term	13.20	--	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-
5 Fixed deposits	Long term	50.00	--	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	MAA- (Stable)	MAA- (Stable)	MAA- (Positive)

**Complexity level of the rated instruments**

Instrument	Complexity Indicator
Fund-based working capital facilities	Simple
Non-fund based working capital facilities	Very Simple
Fund based - Unallocated	Not applicable
Non-Fund based - Unallocated	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 are available on ICRA's website: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based working capital facilities	NA	NA	NA	78.00	[ICRA]A+ (Stable)
NA	Non-fund based working capital facilities	NA	NA	NA	46.80	[ICRA]A1+
NA	Fund based - Unallocated	NA	NA	NA	22.00	[ICRA]A+ (Stable)
NA	Non-Fund based – Unallocated	NA	NA	NA	13.20	[ICRA]A1+
NA	Fixed deposits	NA	NA	FY2023	50.00	[ICRA]A+ (Stable)

Source: Company

## Annexure II: List of entities considered for consolidated analysis

Company Name	ASL Ownership	Consolidation Approach
The Andhra Sugars Limited	100.00% (rated entity)	Full Consolidation
Jocil Limited	55.03%	Full Consolidation
The Andhra Farm Chemicals Corporation Limited	76.83 %	Full Consolidation
Hindustan Allied Chemicals Limited	77.36 %	Full Consolidation
The Andhra Petrochemicals Limited	34.23 %	Equity method

Source: ASL annual report FY2022

Note: ICRA has taken a consolidated view of the parent (ASL), its subsidiaries and associates while assigning the ratings.

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