

September 25, 2024

The Andhra Sugars Limited: Bank facility ratings reaffirmed and fixed deposit rating reaffirmed and withdrawn

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	47.10	47.10	[ICRA]A1+; reaffirmed
Short term - Non-fund based - Unallocated limits	12.90	12.90	[ICRA]A1+; reaffirmed
Fixed deposits	50.00	50.00	[ICRA]A+ (Stable); reaffirmed and withdrawn
Total	210.00	210.00	

*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 is a diversified player, with presence in chlor-alkali and its derivatives, sugar and allied activities, other organic and inorganic chemicals and wind power. ASL has integrated operations (resulting in operating efficiencies) with strong research and development capabilities and a sound management background. 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. The company has a robust capital structure, characterised by low gearing due to the negligible debt levels and a strong liquidity profile, evident from the liquid investments and free cash balances of ~Rs. 177 crore on a consolidated basis and ~Rs. 122 crore on a standalone basis as on March 31, 2024, and the significant unutilised working capital limits.

The profitability moderated in FY2024 owing to decreased caustic soda realisations along with higher power costs. Nevertheless, the coverage indicators, at the standalone and consolidated levels, continued to be comfortable in FY2024, considering the very low debt levels. The profitability is expected to remain moderate in FY2025; however, the leverage and coverage indicators are likely to remain healthy owing to the low reliance on debt.

The ratings, however, are constrained by the exposure to the volatility in the realisation of the electrochemical unit (ECU), the inherent cyclicity in the chlor-alkali business and the vulnerability to import duty levels, exchange rate fluctuations and global supply-demand dynamics. The ratings are also constrained by lower cane availability in its catchment area as farmers have shifted to other remunerative crops, resulting in low crushing levels in the last few years. The crushing volumes and, thereby, the sugar division's utilisation is likely to remain subdued in the near future. The ratings also continue to consider the exposure of the sugar business to the 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.

The fixed deposit rating were put on notice for withdrawal in the last rating exercise for a duration of 6 months and since that timeline has expired the ratings have been withdrawn as per the withdrawal policy.

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 (76% of the total revenues in FY2024 and 80% in Q1 FY2025), while the sugar division made up for 14% in FY2024. The offtake from ISRO products has been healthy. The revenue was ~Rs. 20.9 crore in FY2024 against ~Rs. 41.47 in FY2023. However, the contribution from this segment is expected to improve gradually, going forward.

Comfortable financial risk profile with healthy capital structure and coverage metrics – ASL's capital structure is robust and characterised by a low gearing of 0.02 times on a standalone and consolidated basis as on March 31, 2024. The debt coverage metrics remained healthy with interest cover of 77.5 times (consolidated) and 96.1 times (standalone) and total debt/operating profit of 0.3 times on a consolidated basis and 0.2 times on a standalone basis in FY2024. Despite the expected moderation in operating profitability in FY2025, the debt coverage metrics are expected to remain healthy.

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 and H1 FY2023, global caustic soda prices witnessed an overall uptrend. However, moderation was witnessed in H2 FY2023, FY2024 and Q1 FY2025 due to pressure on demand and increased capacity addition, putting pressure on the realisations. The chloro alkali segment recorded a profitability (PBIT%) of 6.6% in FY2024 vis-à-vis 24.2% in FY2023 due to a significant decline in the realisation of caustic soda. However, the profitability (PBIT%) improved to 7.5% in Q1 FY2025.

Sub-optimal cane crushing levels - Cane availability in ASL's catchment area has been low over the last many 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 now operating only one unit at Taduvai. In FY2024, 3.12 lakh tonnes of cane was crushed vis-à-vis 3.37 lakh tonnes in FY2023. However, cane crushing is expected to remain subdued in the near to medium term.

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 on 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.

Environmental and Social Risks

ASL manufactures caustic soda, which produces chlorine as a by-product, the disposal of which remains a key challenge for the industry. The chemical industry remains exposed to the risk of tightening regulations on environment and safety, which can have a potential bearing on the cost structure or lead to moderate capital outlay for mitigation and treatment. While ASL has a demonstrated track record of running its operations safely, the nature of the risk (being low frequency-high impact) weighs on its ratings.

Further, operating responsibly is an imperative and instances of non-compliance with environmental, health and safety norms could have an adverse impact on the local community which could manifest in the form of protests, constraining the ability to operate or expand the capacity. ASL hasn't experienced/reported any incident suggestive of safety lapses at its manufacturing facilities over the past several years and its ability to maintain the manufacturing controls would be a monitorable.

Liquidity position: Strong

ASL's liquidity is strong, given the significant free cash balances and liquid investments of ~Rs. 122 crore (standalone) and ~Rs. 177 crore (consolidated) as on March 31, 2024 and the sufficient cushion available in the fund-based working capital limits at a standalone level, with minimal utilisation in FY2024. ASL has moderate capex plans for FY2025 and FY2026 and moderate repayment obligation of deferred sales tax loan obligations. These are expected to be comfortably met through the available cash balances 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 – 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	Corporate Credit Rating Methodology Sugar Chemicals Policy on withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of ASL. As on March 31, 2024, the company had three subsidiaries and an associate, which are all enlisted in Annexure II

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.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	2,367.6	1,894.0
PAT	183.6	54.3
OPBDIT/OI	12.6%	6.0%
PAT/OI	7.8%	2.9%
Total outside liabilities/Tangible net worth (times)	0.2	0.2
Total debt/OPBDIT (times)	0.1	0.3
Interest coverage (times)	80.6	77.5

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Standalone	FY2023	FY2024
Operating income	1,453.7	1,151.1
PAT	174.1	53.3
OPBDIT/OI	19.4%	9.4%
PAT/OI	12.0%	4.6%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	0.1	0.2
Interest coverage (times)	98.0	96.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based-Working capital facilities	Long-term	78.00	Sep 25, 2024	[ICRA]A+ (Stable)	Sep 29, 2023	[ICRA]A+ (Stable)	Jun 07, 2022	[ICRA]A+ (Stable)	Sep 28, 2021	[ICRA]A+ (Stable)
							Sep 30, 2022	[ICRA]A+ (Stable)		
Unallocated	Long-term	22.00	Sep 25, 2024	[ICRA]A+ (Stable)	Sep 29, 2023	[ICRA]A+ (Stable)	Jun 07, 2022	[ICRA]A+ (Stable)	Sep 28, 2021	[ICRA]A+ (Stable)
							Sep 30, 2022	[ICRA]A+ (Stable)		
Non-fund based - Working capital facilities	Short-term	47.10	Sep 25, 2024	[ICRA]A1+	Sep 29, 2023	[ICRA]A1+	Jun 07, 2022	[ICRA]A1+	Sep 28, 2021	[ICRA]A1+
							Sep 30, 2022	[ICRA]A1+		
Unallocated limits	Short-term	12.90	Sep 25, 2024	[ICRA]A1+	Sep 29, 2023	[ICRA]A1+	Jun 07, 2022	[ICRA]A1+	Sep 28, 2021	[ICRA]A1+
							Sep 30, 2022	[ICRA]A1+		
Fixed Deposits	Long-Term	50.00	Sep 25, 2024	[ICRA]A+ (Stable); reaffirmed and withdrawn	Sep 29, 2023	[ICRA]A+ (Stable); Put on notice for Withdrawal	Jun 07, 2022	[ICRA]A+ (Stable)	Sep 28, 2021	MAA- (Stable)
							Sep 30, 2022	[ICRA]A+ (Stable)		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund-based - Working capital facilities	Simple
Long term – Fund-based - Unallocated	NA
Short term - Non-fund based - Working capital facilities	Very Simple
Short term - Non-fund based - Unallocated limits	NA
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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term – Fund-based - Working capital facilities	NA	NA	NA	78.00	[ICRA]A+ (Stable)
NA	Long term – Fund-based - Unallocated	NA	NA	NA	22.00	[ICRA]A+ (Stable)
NA	Short term - Non-fund based - Working capital facilities	NA	NA	NA	47.10	[ICRA]A1+
NA	Short term - Non-fund based - Unallocated limits	NA	NA	NA	12.90	[ICRA]A1+
NA	Fixed deposits	NA	NA	NA	50.00	[ICRA]A+ (Stable); reaffirmed and withdrawn

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
JOCIL Ltd	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	34.23%	Equity Method

Source: Annual report FY2024; * Not operational

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