

The Andhra Sugars Limited

Instrument	Amount	Rating Action
	In Rs. crore	January 2016
Fund based limits	325.76 (enhanced from 173.04)	Reaffirmed [ICRA]A; outlook revised to Stable from Negative
Unallocated limits	41.01 (earlier 193.73)	Reaffirmed [ICRA]A; outlook revised to Stable from Negative
Non fund based limits	100.00	Reaffirmed [ICRA]A1
Fixed deposit programme	200.00	MA+ (Reaffirmed); outlook revised to Stable from Negative

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to Rs. 325.76 crore (enhanced from Rs. 173.04 crore) fund based limits and Rs. 41.01 crore (earlier Rs. 193.73 crore) unallocated limits[†] of The Andhra Sugars Limited (ASL)^{*}. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) to Rs. 100.00 crore non fund based limits of ASL. ICRA has reaffirmed the medium-term rating of MA+ (pronounced as M A plus) for Rs. 200.00 crore fixed deposit programme of ASL. The outlook on the long-term rating and the medium-term rating is revised to "Stable" from "Negative".

The revision in the outlook factors in the current scenario of improvement in the sugar prices from Sep, 2015 which is expected to lower the losses from the sugar division in FY16, thus resulting in improvement in the overall profitability and debt coverage metrics in FY16 when compared to the previous year. However, the operating profitability is expected to remain at moderate levels in FY16. Further, given the surplus in the domestic and international sugar markets, the sustainability in the upward trend of sugar prices remains to be seen.

The ratings reaffirmation factor in the significantly integrated operations of ASL resulting in operating efficiencies, strong research & development capabilities, sound management background and the diversified business profile of ASL, which partly insulates it from the business cycles affecting its two main businesses namely sugar and chemicals. The ratings also factor in the company's strong positioning in the domestic chlor-alkalies market and presence in Southern India which is a relatively better market in terms of demand-supply dynamics. The ratings also take into account the favorable liquidity profile of the company as indicated by sufficient cushion on bank limits. The capital structure of the company is comfortable at 0.46 times as on Sep 30, 2015 despite moderate profitability levels given the high net-worth. Further, the capital structure is expected to remain strong despite the company setting up a 33 MW thermal power project with a total cost of Rs. 200 crore (70% debt funded).

The ratings of ASL is however constrained by the weak performance of the sugar division in H1 FY16 which was impacted on account of low average sugar realizations resulting in losses from the sugar division, however this is mitigated to an extent supported by the improvement in the profitability from chemical division on account of relatively lower power costs[†]. Operating profitability is moderate at 11.67% during H1 FY16, largely similar when compared to H1 FY15, however relatively on a higher side when compared to 7.07% in FY15. Going forward, commencement of incremental caustic soda capacities in the Southern market coupled with caustic soda imports are likely to continue to put pressure on domestic caustic soda realizations. The ratings are also constrained by the implementation risks associated with the 33 MW thermal power project given that the project is in early stages of construction. ICRA notes that the timely completion of the project remains critical for controlling the power costs and the resultant positive impact on profitability.

* 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

[†] Power costs were higher in H1 FY15 on account of temporary non availability of power from Andhra Pradesh Gas Power Corporation Limited resulting in higher dependency of grid power



The ratings continue to remain constrained by inherent cyclicity in the chlor-alkali business and its vulnerability to import duty levels, exchange rate fluctuations and global supply-demand dynamics. The rating action factors in reduced cane availability for SY16 on account of shifting of farmers to other alternative crops. The ratings also continue to consider the exposure of the sugar business to cyclical trends and associated agro-climatic risks.

Company Profile

ASL is a diversified conglomerate with presence in sugar and allied activities, chemicals including chloralkali and its derivatives (like caustic soda, caustic potash and hydrochloric acid) and other organic and inorganic chemicals and wind power. The company was promoted by Late Dr. Mullanpudi Harischandra Prasad along with Late Shri P.S.R.V.K. Ranga Rao. ASL commenced its operations as a sugar manufacturer in 1947 and gradually diversified into other business lines. At present, the company has four operating divisions: sugar & allied activities (including co-products (bagasse and molasses), cogeneration and distillery operations); chemicals including caustic soda and its co-products, caustic potash and its co-products, acetic acid and its derivatives, aspirin, sulphuric acid, liquid propellants and other related products; as part of its chemicals division, the company is also engaged in the manufacturing of solid and liquid rocket propellants for the Indian Space Research Organisation (ISRO); power generation and others including cattle feed.

Recent Results

According to unaudited financials of H1 FY16, ASL reported operating income (OI) of Rs. 421.13 crore and net profit of Rs. 19.21 crore as OI of Rs. 429.24 crore and net profit of Rs. 18.46 crore in H1 FY15. In FY15, ASL reported OI of Rs. 778.54 crore and a net profit of Rs. 3.38 crore.

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For further details, please contact:

Analyst Contacts:

Mr. Sabyasachi Majumdar (Tel. No. +91 124 4545304)
sabyasachi@icraindia.com

Relationship Contacts:

Mr. Jayanta Chatterjee (Tel. No. +91-80-43326401)
jayantac@icraindia.com

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**Mobile: **9871221122**Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**Mobile: **9821086490**Email: shivakumar@icraindia.com

1802, 18th Floor, Tower 3,
Indiabulls Finance Centre,
Senapati Bapat Marg,
Elphinstone, Mumbai 400013,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**Mobile: **+91 9903394664**Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Bangalore****Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-
79-25569231

Pune**Mr. L. Shivakumar**Mobile: **989986490**Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills
Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad**Mr. Jayanta Chatterjee**Mobile: **9845022459**Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B, Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500