The Andhra Sugars Limited

Instrument	Amount	Rating Action
	In Rs. Crore	August 2016
Fund-based limits	319.33 (reduced from 325.76)	Reaffirmed [ICRA]A; outlook revised to Positive from Stable
Unallocated limits	47.44 (earlier 41.01)	Reaffirmed [ICRA]A; outlook revised to Positive from Stable
Non-fund based limits	100.00	Reaffirmed [ICRA]A1
Fixed deposit programme	200.00	MA+ (Reaffirmed); outlook revised to Positive from Stable

ICRA has reaffirmed the long-term rating of [ICRA]A (pronounced ICRA A) to the Rs. 319.33-crore (earlier Rs. 325.76 crore) fund-based limits and the Rs. 47.44-crore (earlier Rs. 41.01 crore) unallocated limits[1] of The Andhra Sugars Limited (ASL)[†]. ICRA has also reaffirmed the short-term rating of [ICRA]A1 (pronounced ICRA A one) to the 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 the Rs. 200.00-crore fixed deposit programme of ASL. The outlook on the long-term rating and the medium-term rating is revised to “Positive” from “Stable”.

The revision in the outlook factors in the improved outlook for the company’s sugar business (accounting for 27% of the total revenues during FY2016), driven mainly by the significant increase in domestic sugar realisations owing to a lower domestic production during SY2016 along with exports of 1.6 million MT. This resulted in a decline in the losses from the sugar division during FY2016 (loss before interest and tax as a % of revenues at -8%) when compared to FY2015 (at -21%). Expectations of a further decline in domestic sugar production in SY2017 likely to support the domestic sugar demand–supply scenario in the near term, and result in the increase in contribution margins from the sugar produce. Further, ASL is expected to report significant gains on the sugar inventory of ~56,400 MT as on March 31, 2016 during FY2017 with the average sugar prices prevailing at around Rs. 34,500/MT. Further, the profitability from the chemicals division has also improved during FY2016 (earnings before interest and tax as a % of revenues at 18%) and during Q1 FY2017 (at 23%) when compared to the corresponding previous periods (at 16% and 18%) respectively supported by higher contribution margins from caustic soda. Thus, there has been an improvement in the financial profile of the company during FY2016 as reflected by the increase in the operating profitability, net accruals and debt coverage metrics over the previous year.

The ratings reaffirmation factors in the significantly integrated operations of ASL, resulting in operating efficiencies, strong research and 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 favourable liquidity profile of the company as indicated by sufficient cushion on bank limits. The capital structure of the company is comfortable at 0.47 times as on March 31, and 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 are, however, constrained by the moderate return indicators on account of losses from the sugar division in FY2016. Going forward, commencement of incremental caustic soda capacities in the southern market, coupled with caustic soda imports, could put pressure on domestic caustic soda realisations. The ratings are also constrained by the implementation risks associated with the 33-MW thermal power project and ICRA notes that the timely completion of the project remains critical to control the power costs and the resultant positive impact on profitability. The ratings continue to remain constrained by the inherent cyclicality 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 limited cane availability for SY2017, on account of the farmers

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[1] 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.

shifting to cultivating 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. Mullapudi 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 and 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 also manufactures solid and liquid rocket propellants for the Indian Space Research Organisation (ISRO); power generation and others including cattle feed.

Recent Results

In FY2016, ASL reported an operating income (OI) of Rs. 869.32 crore and net profit of Rs. 54.76 crore as against OI of Rs. 778.54 crore and net profit of Rs. 3.38 crore in FY2015.

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