January 25, 2017

Andhra Sugars Limited

Instrument*	Rated Amount (in crore)	Rating Action
Term loans	170.76	Upgraded from [ICRA]A (Positive) to [ICRA]A+ (Stable)
Cash credit	140.00	Upgraded from [ICRA]A (Positive) to [ICRA]A+ (Stable)
Non-fund based	100.00	Upgraded from [ICRA]A1 to [ICRA]A1+
Unallocated limit	56.01	Upgraded from [ICRA]A (Positive) to [ICRA]A+ (Stable)
Total	**466.77**	
Fixed Deposit Programme	**200.00**	Upgraded from MA+ (Positive) to MAA- (Stable)

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating to [ICRA]A+ (pronounced ICRA A plus)[1] from [ICRA]A (pronounced ICRA A) and the short-term rating to [ICRA]A1+ (pronounced A one plus) from [ICRA]A1 (pronounced A one) for the term loan facilities of Rs. 170.76 crore (revised from Rs. 179.33 crore), cash credit limits of Rs. 140.00 crore, non-fund based limits of Rs. 100.00 crore and unallocated limits of Rs. 56.01 crore (revised from Rs. 47.44 crore) of The Andhra Sugars Limited (ASL). The rating assigned to the Rs. 200 crore fixed deposit programme of the company has been upgraded to MAA- (pronounced M double A minus) from MA+ (pronounced M A plus). The outlook on the long-term rating and the medium-term rating is revised to Stable from Positive.

Rationale

ICRA's rating upgrade factors in the significant progress achieved by the company in the implementation of the 33 MW captive coal-based power plant, which is expected to be commissioned by March 2017, and result in power cost savings for the company from FY2018 onwards. The ratings also take comfort from the improved profitability of the company during H1 FY2017 (PBT of 12.3%) as against FY2015 and FY2016 (PBT of 1% and 8.9%) supported by the significant increase in realisation for the sugar business and sustained realisation for the caustic soda business. The average realisation for the sugar business increased to more than Rs. 34500 per MT during H1 FY2017 as against the average realisation of ~Rs. 25300 per MT in FY2016. The profitability from the caustic soda business improved to 18.2% (profit before interest and tax as a % of revenues) during H1 FY2017 from 16.8% during H1 FY2016 supported by higher contribution margins. ICRA also factors in the improved outlook for the company's sugar business (accounting for 27% of the total revenues during FY2016 and H1 FY2017), driven mainly by the significant increase in domestic sugar realization, owing to a lower domestic production during SY2016 and expectations of a further decline in the domestic sugar production in SY2017, which is expected to improve the contribution margin for the full year of FY2017.

The ratings continue to factor 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 its 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 evident from the sufficient cushion on bank limits. The capital structure of the company is comfortable with gearing at 0.39 times as on September 30, 2016 and is expected to remain strong, despite the company setting up a 33-MW thermal power project at a total cost of Rs. 200 crore (~50% debt funded).

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

The ratings of ASL are, however, constrained by the low return indicators in the sugar business and expectations of lower cane availability in ASL's catchment area as farmers have shifted to other remunerative crops leading to lower crushing during SY2017. 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. Going forward, the commencement of incremental caustic soda capacities in the southern market, coupled with caustic soda imports, could put pressure on the domestic caustic soda realisations. The ratings also continue to consider the exposure of the sugar business to cyclical trends and associated agro-climatic risks.

Key rating drivers

Credit Strengths

- Diversified player with presence in sugar & allied activities, chlor-alkali & its derivatives, other organic & inorganic chemicals and wind power
- Strong financial profile of the company with improved profitability in FY2016 and H1 FY2017 supported by higher volume sales and sustained realisations in the caustic soda division and higher realisation from the sugar division
- Significant increase in domestic sugar prices are expected to support the contribution margins from sugar produce in FY2017
- Commencement of the captive thermal power plant in March 2017 is likely to result in power cost savings and support profitability of the company
- Comfortable capital structure with gearing at 0.39 times as on September 30, 2016. Going forward, despite the company having plans to set up a 33 MW thermal power plant, the capital structure is expected to remain strong
- ASL's liquidity position continues to remain comfortable, as measured by its utilisation of the fund based limits

Credit Weakness

- Returns from the sugar division remain low; high amount of capital deployed in the division impacts the overall return indicators of the company
- Inherent vulnerability of profitability of chlor-alkali products to the cyclicality inherent in the industry; domestic prices of caustic soda remain vulnerable to domestic capacity, global demand supply dynamics, quantum of imports, import duty levels and exchange rate
- Cane availability in ASL's catchment area has been relatively low as farmers have shifted to other remunerative crops, which is expected to lead to lower crushing during SY2017; exposure to agro-climatic risk and cyclical trends in sugar business

Description of key rating drivers highlighted above:

The company's revenue and profitability have been driven primarily by its chemicals (particularly chlor-alkali & its derivatives) and sugar operations. The contribution from the chemical division has always been higher than the sugar division; however the revenue mix keeps fluctuating due to cyclicality inherent in the chlor-alkali and sugar industries. Apart from chlor-alkalies and sugar operations, the company also has capacities to manufacture rocket propellant and other chemicals such as acetic acid, sulphuric acid, superphosphate, Aspirin and cattle feed and generate wind power. The company's presence across varied product lines not only leads to diversity in revenues but also ensures stability to the company's cash flows and economics of scale backed by significant level of integration among the various product lines.

Chemicals Division

ASL's chemical division is a manufacturer of chlor-alkalies products such as caustic soda, caustic potash and its co-products chorine and hydrogen gas. Operations of ASL are also forward integrated to produce hydrochloric acid, sodium hypochlorite, poly aluminium chloride etc. The company's chemicals division contributed to 68% of the revenues in FY2016. The company has the ninth largest chlor-alkali producing capacity in the country and has one of the largest producing capacities in the southern India. It caters to pulp and paper, chemicals, PVC, pharmaceuticals and aluminium industries primarily located in southern India. The company also enjoys a location advantage arising out of the relatively better demand-supply balance for caustic soda in the southern region vis-à-vis other parts of the country. However, the profitability of chlor-alkali products remains exposed to the cyclicality inherent in the industry. The domestic prices of caustic soda remain vulnerable to domestic capacity, global demand supply dynamics, imports, import duty levels and exchange rate

Manufacturing of chlor-alkali is a power-intensive process and access to a competitive source of power is a key strength in the business. ASL has access to gas based power generation capacity of Andhra Pradesh Gas Power Corporation Limited (APGPCL, as a group captive consumer). The company also has a co-generation capacity (under sugar division), solar power plant and wind power generation capacities. Other than these sources, the remaining power requirement of ASL is met by the grid power. The power supply from APGPCL continues to remain moderate on account of gas availability issues and the company is becoming increasingly dependent on grid power to meet its power requirements. The company is setting up a 33 MW captive coal-based power plant at Saggonda in order to lower its dependence on grid power as well as open market purchases. The project is being set up at a total cost of Rs. 200 crore. The project is in advance stage of construction and is expected to be commissioned by March 2017. Once commissioned, the captive power plant would lead to savings in power purchase costs and is likely to improve the profitability.

Sugar Division

ASL owns and operates three sugar units in Andhra Pradesh (AP), with a combined crushing capacity of 16000 TCD. The operations of the company are located in the fertile West Godavari belt of AP and are also forward integrated to manufacture alcohol & its derivatives and to generate power. ASL has a 36 KLPD distillery capacity and an 8.9 MW co-generation capacity at Tanuku in AP and has a 7 MW co-generation capacity at Taduvai in AP. The sugar business accounted for 27% of the revenues in FY2016.

High cane price coupled with the decline in the sugar realisations from around Rs. 29,600/MT in FY2015 to around Rs. 25,300/MT in FY2015 resulted in negative contribution margins from sugar sales during FY2016. However, the sugar realizations improved in the first half of FY2017 to Rs. 34500/MT and resulted in lower losses for the sugar division. The outlook for the company's sugar business has improved, driven mainly by the significant increase in domestic sugar realisations owing to a lower domestic production in SY2016 and expectations of a further decline in domestic sugar production in SY2017, which is expected to improve the contribution margin for the full year of FY2017. However, the cane crushing is expected to be lower at 4.5 lakh MT in SY2017 as against 6.10 lakh MT in SY2016, owing to farmers shifting to other remunerative crops.

Financial Profile

Operating income of the company increased by 11% to Rs. 466.24 crore in H1 FY2017 from Rs. 421.13 crore in H1 FY2016 led by higher revenues from sugar and caustic soda divisions. Also, the operating and net profitability improved on YoY basis in H1 FY2017, led by lower losses from the sugar division and improved profitability from the caustic soda and industrial chemicals divisions.

The total debt for the company declined from Rs. 282.40 crore as on March 31, 2016 to Rs. 244.25 crore as on September 30, 2016 on account of lower working capital borrowings and repayment of long term debt and this is despite drawing the term loans availed for setting up the 33 MW captive power plant. This has also enabled an improvement in the gearing (from 0.47 times as on March 31, 2016 to 0.39 times as on September 30, 2016) and debt coverage indicators of the company. Further, ASL's liquidity position remains comfortable with low utilisation of the working capital limits.

Analytical approach:

For arriving at the rating, ICRA has taken into account the operational and financial risk profile of ASL.

Links to applicable Criteria

Corporate Credit Rating – A Note on Methodology
Rating Methodology for Chemicals Industry
Rating Methodology for Sugar Industry

About the Company:

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; solid and liquid rocket propellants for the Indian Space Research Organisation (ISRO); and power generation and others including cattle feed.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating History for last three years:

Table: Rating History

S. No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years						
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month-year & Rating in FY2017	Month- year & Rating in FY2016		Month- year & Rating in FY2015		Month- year & Rating in FY2014
				January 2017	August 2016	January 2016	July 2015	December 2014	May 2014	November 2013
1	Term loans	Long Term	170.76	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Cash Credit	Long Term	140.00	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-fund based	Short Term	100.00	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated	Long Term	56.01	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5.	Fixed Deposits	Medium Term	200.00	MAA- (Stable)	MA+ (Positive)	MA+ (Stable)	MA+ (Negative)	MA+ (Stable)	MA+ (Stable)	-

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan-I	Feb-2014	-	Jan-2019	17.06	[ICRA]A+ (Stable)
Term Loan-II	Feb-2014	-	March-2017	3.61	[ICRA]A+ (Stable)
Term Loan-III	Aug-2015	-	July-2018	10.09	[ICRA]A+ (Stable)
Term Loan-IV	Aug-2015	-	April-2025	100.00	[ICRA]A+ (Stable)
Term Loan-V	Dec-2015	-	April-2025	40.00	[ICRA]A+ (Stable)
Cash Credit	-	-	-	140.00	[ICRA]A+ (Stable)
Non-fund based limits	-	-	-	100.00	[ICRA]A1+
Unallocated	-	-	-	56.01	[ICRA]A+ (Stable)
Fixed Deposit Programme	-	-	-	200.00	MAA- (Stable)

Source: Andhra Sugars Limited

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