July 10, 2017

The Andhra Sugars Limited

Summary of rated instruments

Instrument*	Amount (Rs. crore)	Rating Action
Bank loan ratings		
Fund-based Term Loan	120.92	[ICRA]A+ (Stable); reaffirmed
Fund-based Cash Credit	140.00	[ICRA]A+ (Stable); reaffirmed
Non-fund Based	100.00	[ICRA]A1+; reaffirmed
Unallocated limit	105.85	[ICRA]A+ (Stable); reaffirmed
Fixed deposit programme		
Fixed deposit programme	50.00	MAA- (Stable); assigned
Fixed deposit programme	200.00	MAA- (Stable); reaffirmed

*Instrument details are provided in Annexure – 1

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]A+ (pronounced ICRA A plus)[1] for the term loan facilities of Rs. 120.92 crore (revised from Rs. 170.76 crore), cash credit limits of Rs. 140.00 crore and unallocated limits of Rs. 105.85 crore (revised from Rs. 56.01 crore) of The Andhra Sugars Limited (ASL). ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the non-fund based limits of Rs. 100.00 crore.

ICRA has reaffirmed the medium-term rating of MAA- (pronounced M double A minus) for the Rs. 200.00 crore fixed deposit programme of ASL. ICRA has also assigned MAA- rating to Rs. 50.00 crore fixed deposit programme of ASL. The outlook on the long-term rating and the medium-term rating is Stable.

Rationale

The rating action factors in the improvement in ASL's financial profile in FY2017 as reflected by an increase in its operating profitability and debt-coverage metrics. This is driven by improved performance of the caustic soda division and the sugar division. Profitability from the caustic soda business improved to 22.9% (profit before interest and tax as a percentage of revenues) during FY2017 from 17.7% during FY2016 on higher contribution margins. The sugar division's profitability witnessed improvement to 5.6% during FY2017 from -7.9% during FY2016 supported by a significant increase in the sugar realisations. ICRA also positively factors in the commencement of the 33 MW captive coal-based power plant, which is expected to result in power cost savings from FY2018.

The ratings continue to factor in ASL's significantly integrated operations (resulting in operating efficiencies), strong research and development capabilities, sound management background and its diversified business profile, which partly insulates it from the business cycles affecting its two main businesses, sugar and chemicals. The ratings also factor in the company's strong position in the domestic chlor-alkali market and its presence in southern India, which is a relatively better market in terms of

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

demand-supply dynamics. The ratings also take into account ASL's comfortable capital structure and favourable liquidity profile as evident from the sufficient cushion on bank limits.

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 during SY2017. Further, a significant turnaround in cane crushing volumes is unlikely in the near term. 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, may 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 and allied activities, chlor-alkali and its derivatives, other organic and inorganic chemicals and wind power
- Comfortable capital structure with gearing at 0.42 times as on March 31, 2017 despite the recent debt-funded capex for setting up the 33 MW thermal power plant
- Strong financial profile with improved profitability in FY2017 supported by better performance of the caustic soda division and higher realisation from the sale of sugar. This, coupled with low gearing, resulted in healthy debt-coverage metrics during FY2017
- Commencement of the captive thermal power plant in March 2017 is likely to result in power cost savings and support profitability
- ASL's liquidity position continues to remain comfortable, as measured by its utilisation of the fund-based limits

Credit challenges

- Cane availability in ASL's catchment area has been at an all time low in SY2017 on account of farmers shifting to other remunerative crops; exposure to agro-climatic risks and cyclical trends in sugar business
- Despite improvement in the sugar division's performance in FY2017 from FY2016, the benefits of the significant increase in the sugar realisation have been limited on account of low levels of crushing in FY2017
- 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

Description of key rating drivers

The company's revenue and profitability have been driven primarily by its chemicals (particularly chlor-alkali and 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 the cyclicality inherent in the chlor-alkali and sugar industries. Apart from chlor-alkali and sugar operations, the company has capacities to manufacture rocket propellant and other chemicals (such as acetic acid, sulphuric acid, superphosphate), aspirin and cattle feed. It also generates wind power. Presence in various product lines not only leads to diversity in revenues but also provides stability to the company's cash flows and economies of scale backed by a significant level of integration among the various product lines.

Chemicals division

The company's chemical division manufactures chlor-alkali products, such as caustic soda, caustic potash and its co-products chorine and hydrogen gas. Its operations are also forward integrated to produce hydrochloric acid, sodium hypochlorite, poly-aluminium chloride etc. The company's chemicals division contributed to around 74% of the revenues in FY2017. It also enjoys a location advantage due to the relatively better demand-supply balance for caustic soda in the southern region than other parts of the country. However, the profitability of chlor-alkali products remains exposed to the cyclicality inherent in the industry.

Manufacturing 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 the 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, solar power plant and wind power generation capacities. The power supply from APGPCL remains moderate on account of gas-availability issues and as such, the company has become increasingly dependent on grid power to meet its power requirements. However, the recent commencement of a 33 MW captive coal-based power plant at Saggonda in March 2017 is likely to result in lower dependence on grid power, lead to savings in power costs and support profitability.

The company is undertaking expansion of the caustic soda plant by 100 TPD at Saggonda, which is expected to cost around Rs. 80 crore and commence operations by Q4 FY2018. However, healthy utilisation of the new capacity will be critical on the effective disposal/consumption of the by-product, chlorine.

Sugar division

The company has three sugar units in Andhra Pradesh (AP), with a combined crushing capacity of 16,000 TCD. Its operations are located in the fertile West Godavari belt of AP and are also forward integrated to manufacture alcohol and its derivatives as well as to generate power. ASL has a 36 KLPD distillery capacity and an 8.9 MW co-generation capacity at Tanuku in AP and a 7 MW co-generation capacity at Taduvai in AP. The sugar business accounted for 24% of the revenues in FY2017.

A significant increase in sugar realisation to Rs. 35,069/MT in FY2017 from Rs. 25,315/MT in FY2016 turned around the performance of the sugar division, which reported a profit of Rs. 14.83 crore at PBIT level during FY2017 as against a loss of Rs. 20.99 crore during FY2016. The benefits of this increase in the realisations, however, have been limited due to low cane crushing volumes (4.14 lakh MT during SY2017 as against 6.10 lakh MT in SY2016 as farmers shifted to other remunerative crops).

Key financial indicators

	FY2016	**FY2017**
Operating income (Crore)	869.32	906.70
PAT (Crore)	46.46	120.52
OPBDIT/ OI (%)	14.60%	22.77%
RoCE (%)	10.53%	16.31%
Total Debt/ TNW (times)	0.41	0.42
Total Debt/ OPBDIT (times)	2.23	1.71
Interest coverage (times)	4.59	8.50
NWC/ OI (%)	35%	27%

OPBDIT: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit after Tax;

RoCE: Return on Capital Employed; TNW: Total Net-Worth; NWC: Net Working Capital.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below

Links to applicable criteria

Rating Methodology for Entities in the Chemicals Industry

Rating Methodology for Entities in the Sugar Industry

Company profile

The company is a diversified conglomerate with presence in sugar and allied activities, chemicals including chlor-alkali and its derivatives (like caustic soda, caustic potash and hydrochloric acid), 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, namely sugar and allied activities (including co-products like bagasse and molasses, cogeneration and distillery operations), chemicals like 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), 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	
				July 2017	January 2017	August 2016	January 2016	July 2015	December 2014	May 2014
1	Term loans	Long Term	120.92	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Cash Credit	Long Term	140.00	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[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	105.85	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	[ICRA]A (Stable)	[ICRA]A (Negative)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Fixed Deposits	Medium Term	250.00	MAA- (Stable)	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

ICRA

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	February-2014	-	January-2019	13.40	[ICRA]A+ (Stable)
Term Loan-II	August-2015	11.00%	July-2018	7.52	[ICRA]A+ (Stable)
Term Loan-III	August-2015	10.50%	April-2025	71.43	[ICRA]A+ (Stable)
Term Loan-IV	December-2015	10.30%	April-2025	28.57	[ICRA]A+ (Stable)
Cash Credit	-	-	-	140.00	[ICRA]A+ (Stable)
Non-fund Based Limits	-	-	-	100.00	[ICRA]A1+
Unallocated	-	-	-	105.85	[ICRA]A+ (Stable)
Fixed Deposit Programme	-	-	-	250.00	MAA- (Stable)

Source: The Andhra Sugars Limited

Name and Contact Details of the Rating Analyst(s):

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Anupama Reddy
+91 40 40676516
anupama.reddy@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit **www.icra.in**

© Copyright, 2017, ICRA Limited. All Rights Reserved
Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

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: +**91 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: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, 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: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 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: +**91 9821086490** 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: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	