ICRA

The Andhra Sugars Limited

July 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	120.92	6.10	Reaffirmed at [ICRA]A+; Outlook revised to Positive from Stable
Fund-based- Working Capital Facilities	140.00	140.00	Reaffirmed at [ICRA]A+; Outlook revised to Positive from Stable
Non-fund Based-Working Capital Facilities	100.00	100.00	Reaffirmed at [ICRA]A1+
Unallocated Limits	105.85	3.90	Reaffirmed at [ICRA]A+; Outlook revised to Positive from Stable
Total	**466.77**	**250.00**	
Fixed Deposits	**250.00**	**250.00**	Reaffirmed at MAA-; Outlook revised to Positive from Stable

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) to the Rs. 6.10-crore[1] (reduced from Rs. 120.92-crore) term loans, Rs. 140.00-crore fund-based working capital limits and Rs. 3.90-crore (reduced from Rs. 105.85-crore) unallocated limits of The Andhra Sugars Limited (ASL or the company)[2]. ICRA has reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 100.00-crore non-fund based working capital limits of ASL.

ICRA has also reaffirmed the medium-term rating of MAA- (pronounced M double A minus) to the Rs. 250.00-crore fixed deposit programme of ASL. The outlook on the long-term rating and medium-term rating is revised to Positive from Stable.

Rationale

The outlook revision to Positive favourably factors in the chemical division's healthy performance in FY2018, which is likely to improve further in FY2019. This is supported by the increase in the caustic soda and sulphuric acid realisations along with a likely decline in the power costs, given the higher power availability from its captive thermal plant and Andhra Pradesh Gas Power Corporation Limited (APGPCL) reducing the dependence on the relatively high-cost grid power. Further, the losses from the sugar division are likely to significantly decline in FY2019 (as against Rs. 51-crore loss before interest and tax in FY2018) owing to the recent support measures taken by the Government of India (GoI) for the sugar industry. These include creation of three million metric tonne (MT) of buffer stock, which is likely to improve the demand-supply scenario in the near term, and fixing of minimum sugar price (MSP) at Rs. 29,000/MT. These measures have helped in recovery of sugar prices, which is anticipated to result in significant inventory gains in Q1 FY2019, given that the closing inventory was valued around Rs. 26,650/MT as on March 31, 2018. The ratings also factor in the strong financial profile as reflected by healthy operating profitability, comfortable capitalisation and coverage indicators supported by robust profitability from the chemical division in FY2018.

[1] *100 lakh = 1 crore = 10 million*

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

The ratings also factor in the ASL's favourable liquidity profile as evident from the significant un-utilised working capital limits despite undertaking a capex of Rs. 80 crore towards expansion of its caustic soda capacity by 100 TPD, which is being completely funded through its internal accruals. ICRA also expects that there would be no additional support required for the Group entities from ASL going forward. 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. This 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 the demand-supply dynamics.

ASL's ratings, however, are constrained by lower cane availability in its catchment area as farmers have shifted to other remunerative crops leading to low crushing levels in SY2018. While the crushing levels are likely to improve in the next sugar season, given the increase in command area, it is still likely to remain at sub-optimal levels. 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 the global supply-demand dynamics. The ratings also continue to consider the exposure of the sugar business to cyclical trends and associated agro-climatic and regulatory risks.

Outlook: Positive

ICRA expects the profitability and the debt-coverage metrics to improve in the near term supported by an improvement in the performance of the chemical division and lower losses from the sugar division. The outlook may be revised to Stable, if there is a deterioration in the business performance impacting the profitability and debt-coverage metrics. Further, higher-than-expected capex and its adverse impact on the capital structure may also lead to a revision in the outlook to Stable.

Key rating drivers

Credit strengths

Diversified business profile - ASL is a diversified player with presence in sugar and allied activities, chlor-alkali and its derivatives, other organic and inorganic chemicals and wind power. The chemical division, which includes caustic soda, caustic potash, sulphuric acid, chlorine, hydrochloric acid, industrial alcohol etc., accounts for a major part of the revenues at 79% of the total revenues in FY2018, while the sugar division accounts for 17%.

Strong financial profile in FY2018 - The company has a strong financial profile as reflected by its healthy operating profitability at 20.7%, comfortable capital structure and coverage metrics with the gearing at 0.3 times, Net Debt/OPBDITA at 1.1 times and interest coverage at 6.7 times in FY2018. The performance in FY2018 was supported by robust profitability of the chemical division on the back of higher contribution margins from caustic soda, caustic potash and sulphuric acid, despite the sugar division reporting losses of around Rs. 51 crore (loss before interest and tax). The company has also prepaid the term loan of Rs. 93 crore in March 2018, primarily pertaining to the captive thermal power plant.

Profitability and cash accruals likely to improve in FY2019 - The chemical division's profitability is likely to improve due to firm caustic soda realisations, increased sulphuric acid realisations and increase in the power supply from the captive power plant and APGPCL reducing the dependence on the relatively high-cost grid power. The sugar division's losses are likely to reduce given the Government's support measures for the sugar industry.

The support measures include creation of 3 million MT of buffer stock, fixation of MSP at Rs. 29,000/MT and incentives for setting up of distillery capacities. The creation of buffer stock is likely to improve the demand-supply dynamics in the near term. The prices have already witnessed recovery to Rs. 33,000/MT from the low level of Rs. 26,500/MT in May 2018. This improvement in the prices is likely to result in inventory gains in Q1 FY2019, given the low inventory valuation of around Rs. 26,650/MT as on March 31, 2018.

Comfortable liquidity position - ASL's liquidity position as measured by its utilisation of the fund-based limits remained comfortable. In the sugar division, the average limits utilisation over the last 12 months was around 7% and in the chemical division at 4%. It also had liquid investments and free cash balances to the tune of Rs. 72 crore as of June 30, 2018.

Credit challenges

Sub-optimal cane crushing levels - Cane availability in ASL's catchment area has been at an all time low over the last few sugar seasons on account of farmers shifting to other remunerative crops. While the crushing levels are likely to improve in the next sugar season, given the increase in its command area, it is still likely to remain at sub-optimal levels.

Cyclical nature of sugar and chemical businesses - The sugar industry is a cyclical industry, wherein the input price i.e. cane price is regulated i.e. set by the Government mandate, while the realisations are market driven. However, the Government has now fixed the MSP at Rs. 29/kg for one year. The realisations are usually driven by the sugar production, inventory and demand levels, while raw material availability is exposed to agro-climatic risks. The chemicals business is also exposed to the vagaries of currency fluctuations and duty structures apart from cyclicality associated with global and domestic supply-demand balance

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Sugar Industry

Rating Methodology for Entities in the Chemicals Industry

About the company:

The company is a diversified conglomerate 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 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, it has four operating divisions, namely sugar and allied activities (including co-products like bagasse and molasses, co-generation 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.

In FY2018, the company reported a net profit of Rs. 99.3 crore on an operating income (OI) of Rs. 966.6 crore, as compared to a net profit of Rs. 120.5 crore on an OI of Rs. 906.7 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	906.7	966.6
PAT (Rs. crore)	120.5	99.3
OPBDIT/OI (%)	22.8%	20.7%
RoCE (%)	16.4%	14.9%
Total Debt/TNW (times)	0.4	0.3
Total Debt/OPBDIT (times)	1.6	1.3
Interest coverage (times)	8.5	6.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date &Rating July 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 January 2017	 September 2016	Date & Rating in FY2016 January 2016	 July 2015
1	Term Loam	Long Term	6.10	6.10	**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Positive)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**
2	Fund-based working capital limits	Long Term	140.00		**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Positive)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**
3	Non-fund based working capital limits	Short Term	100.00		**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**
4	Unallocated limits	Long Term	3.90		**[ICRA]A+ (Positive)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A (Positive)**	**[ICRA]A (Stable)**	**[ICRA]A (Negative)**
5	Fixed deposits	Long Term	250.00		**[ICRA]MAA- (Positive)**	**[ICRA]MAA- (Stable)**	**[ICRA]MAA- (Stable)**	**[ICRA]MA+ (Positive)**	**[ICRA]MA+ (Stable)**	**[ICRA]MA+ (Negative)**

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	Feb 2014	NA*	Jan 2019	6.10	[ICRA]A+ (Positive)
NA	Fund-based working capital limits	NA	NA	NA	140.00	[ICRA]A+ (Positive)
NA	Non-fund based working capital limits	NA	NA	NA	100.00	[ICRA]A1+
NA	Unallocated limits	NA	NA	NA	3.90	[ICRA]A+ (Positive)
NA	Fixed deposits	NA	NA	1-3 years	250.00	MAA- (Positive)

Source: The Andhra Sugars Limited, *interest subvention loan

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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

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