

August 13, 2019

The Andhra Sugars Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	6.10	0.00	-
Fund based- Working Capital Facilities	140.00	140.00	[ICRA]A+ (Positive); Reaffirmed
Non-fund based-Working Capital Facilities	100.00	100.00	[ICRA]A1+; Reaffirmed
Unallocated Limits	3.90	10.00	[ICRA]A+ (Positive); Reaffirmed
Total	250.00	250.00	
Fixed Deposits	250.00	250.00	MAA- (Positive); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of ratings factors in the superior performance of The Andhra Sugars Limited's (ASL) chemical division on account of improved ECU¹ realisations resulting in higher profitability, along with reduced losses in the sugar division in FY2019. Overall, the net cash accruals witnessed a healthy growth of 47% in FY2019 to Rs. 185.9 crore. The ratings take comfort from ASL's strong financial profile as reflected by healthy operating profitability at 30.3%, comfortable capitalisation at 0.3 times and debt coverage metrics with interest coverage at 10.1 times, Total Debt/OPBIDTA at 1.0 times and Net Cash Accruals/Total Debt at 63% in FY2019. Although there has been some moderation in the caustic soda realisations in H1 FY2020, the profitability of the chemical division is expected to remain healthy in the near term. In addition, the improvement in efficiencies from the captive thermal power plant in FY2020 is likely to support the profitability of the chemical division to an extent. Consequently, the capitalisation and debt coverage metrics are likely to remain comfortable, despite some moderation in profitability in FY2020.

The ratings factor in the ASL's favourable liquidity profile as evident from the liquid investments and free cash balances of Rs. 134.1 crore as on March 31, 2019 and the significant unutilised working capital limits. The ratings continue to factor in ASL's 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 presence in southern India, which is a relatively better chlor-alkali 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 SY2020. The ratings are constrained by the inherent cyclicity 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

¹Electrochemical unit

agro-climatic and regulatory risks. ICRA is given to understand that there would be no additional support required for the Group entities from ASL going forward.

Outlook: Positive

ICRA expects the profitability and the debt coverage metrics to remain healthy supported by healthy performance of the chemical 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 chlor-alkali and its derivatives, sugar and allied activities, 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, accounted for 83% of the total revenues in FY2019, while the sugar division contributed to 12% of its revenues.

Superior performance of chlor-alkali business in FY2019 – ASL's chemical division witnessed robust profitability on the back of higher contribution margins from caustic soda, caustic potash and sulphuric acid. Further, it witnessed a decline in losses from the sugar division. The profit before interest and tax for chemicals (caustic soda and industrial chemicals) increased to Rs. 279.0 crore (34%) in FY2019 from Rs. 230.5 crore (30%) in FY2018 and the loss before interest and tax for sugar declined to Rs. 2.2 crore (-1%) in FY2019 from Rs. 50.5 crore (-24%) in FY2018. This resulted in 47% increase in net cash accruals in FY2019 to Rs. 185.9 crore. There has been some moderation in ECU realisations owing to a decrease in caustic soda realisations to around Rs. 38/kg in H1 FY2020 from 40.7/kg in FY2019. However, the same is likely to be healthy in the near term.

Capitalisation and debt coverage metrics likely to remain strong despite moderation in profitability in FY2020 – ASL's operating profitability is likely to moderate to an extent in FY2020. However, it is expected to remain at healthy levels. The capitalisation and debt coverage metrics are likely to remain comfortable in FY2020, given the relatively low debt levels. In addition, the improvement in efficiencies from the captive thermal power plant in FY2020 is likely to support its profitability from the chemical division to an extent. Further, the sugar division is supported by the Government policies in the form of creation of buffer stock of 4 million MT (which is likely to improve the demand-supply dynamics in the near term), non-increase in the FRP for SY2020 and MSP for sugar at Rs. 31,000/MT.

Comfortable liquidity position – ASL's liquidity position remained comfortable with adequate cushion in fund-based limits and unencumbered cash balances to the tune of Rs. 134.1 crore as on March 31, 2019. In FY2019, the average limits utilisation was around 9% for the sugar division and at 2% for the chemical division.

Credit challenges

Sub-optimal cane crushing levels – Cane availability in ASL's catchment area has been at low levels over the last few sugar seasons on account of farmers shifting to other remunerative crops. This is unlikely to change in the near term.

Cyclical nature of sugar and chemical businesses – The profitability of the sugar business is exposed to the cyclicity of the sugar industry, the agro-climatic risks related to cane production and the Government policies related to sugar trade, www.icra.in

cane cost and sugar realisation. The chemical business is exposed to the vagaries of currency fluctuations and duty structures, apart from the cyclical nature associated with global and domestic supply-demand balance

Liquidity position

ASL's fund flow from operations increased to Rs. 183.3 crore in FY2019 from Rs. 132.5 crore in FY2018, driven by an increase in operating profitability. ASL's liquidity position is strong as reflected by the unencumbered cash balances to the tune of Rs. 134.1 crore as on March 31, 2019, significant cushion in the fund-based working capital limits, and the limited debt repayments in the medium term vis-a-vis cash accruals.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry Rating Methodology for Entities in the Chemicals Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Standalone

About the company

The company is a diversified player 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 the Late Dr. Mullapudi Harischandra Prasad along with the 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, 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 FY2019, the company reported a net profit of Rs. 165.7 crore on an operating income (OI) of Rs. 974.4 crore, as compared to a net profit of Rs. 99.3 crore on an OI of Rs. 966.6 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019 (Prov)
Operating Income (Rs. crore)	966.6	974.4
PAT (Rs. crore)	99.3	165.7
OPBDIT/OI (%)	20.7%	30.3%
RoCE (%)	14.9%	22.6%
Total Debt/TNW (times)	0.3	0.3
Total Debt/OPBDIT (times)	1.3	1.0
Interest Coverage (times)	6.7	10.1

Source: ICRA research, company data

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017		
					July 2018	July 2017	January 2017	September 2016	
1	Term Loan	0.00	0.00	-	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	
2	Fund-based working capital limits	140.00		[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	
3	Non-fund based working capital limits	100.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	
4	Unallocated limits	10.00		[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Positive)	
5	Fixed deposits	250.00		MAA- (Positive)	MAA- (Positive)	MAA- (Stable)	MAA- (Stable)	MA+ (Positive)	

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	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	10.00	[ICRA]A+ (Positive)
NA	Fixed deposits	NA	NA	1-3 years	250.00	MAA- (Positive)

Source: The Andhra Sugars Limited

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Avneet Kaur
+91 124 4545 304
avneetk@icraindia.com

Anupama Reddy
+91 40 4067 6516
anupama.reddy@icraindia.com

RELATIONSHIP CONTACT

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

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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