



Press Release

Rana Sugars Limited

August 23, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicators
Long Term Bank Facilities – Term Loan	27.30 (increased from 25.00)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Long Term Bank Facilities – Cash Credit	134.30 (increased from 54.50)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities – LC / BG	2.00	IVR A3 (IVR A Three)	Reaffirmed	Simple
Total	163.60 (Rupees One Hundred Sixty-Three Crore and Sixty Lakhs Only)			

Details of facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating factors in the experienced promoters with long track record, integrated nature of operations, Power Purchase Agreements (PPAs) providing long term revenue visibility, healthy financial risk profile and government support to the sugar industry. RSL's ratings continue to remain constrained by its working capital-intensive operations, cyclicity in the sugar business, exposure to vagaries of nature and risk related to government regulations.

Key Rating Sensitivities :

Upward Factors :

- Sustained increase in scale of operation of more than 15% in coming years with improvement in cash accruals.
- Improvement in profitability metrics with EBITDA margin above 13% on a sustained basis
- Improvement in capital structure with reduction in overall gearing below 0.10x.



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Downward Factors

- Sharp decline in sugar prices, cane crushing volumes, recovery rate or an increase in cane costs; or any significant decline in ethanol realizations or material change in Government policies resulting in moderation of profitability and debt coverage metrics.
- Deterioration in working capital management impacting the liquidity or sizeable capital expenditure weakening the financial risk profile.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters with long track record

Rana Sugars Limited was established in 1991 and is a public limited company with its shares listed in NSE and BSE stock exchanges. The registered office of the company is located at Chandigarh. The company is managed by the promoter Rana Inder Pratap Singh (Managing Director), Mr. Rana Veer Pratap Singh (Director) and Mr. Rana Ranjit Singh (Director) and have established healthy customer and suppliers' relations over the years.

Integrated nature of operations

RSL operations are fully integrated in nature which has led to better absorption of fixed cost and any increase in the raw material cost. The company is having its operations in the State of Punjab and Uttar Pradesh and is principally engaged in the manufacturing of Sugar, Ethanol and co-generation of power. The cogeneration and distillery units provide alternate revenue streams and some cushion against cyclicity in sugar business. Furthermore, integrated nature of operations supports overall profitability of RSL. As a result of the integrated nature of operations the operating margin of the society have ranged between 4-10% over the last four years.

PPAs providing long term revenue visibility

RSL has installed a 102 MW co-generation power. Power is used captively as well as exported to the State Grids of Punjab and Uttar Pradesh respectively under long term Power Purchase Agreements (PPA). The company has 3 PPA for its 3 units in Moradabad, Rampur and Buttar with tenure of the agreement is of 20 years from the date of commission of plant i.e. till Jan 2027.



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Healthy Financial risk profile

RSL's total operating income (TOI) increased by 17.55% in FY23 as compared to FY22 and stood at Rs.1627.48 crore, as a result of growth in turnover in all the three segments. At the same time the margins showed decline in trend with EBITDA margin of 6.96% and PAT margin of 3.84% respectively (FY22 : 12.69% & 6.07% respectively). With the dip in the profitability the GCA reduced by ~32% to Rs.104.21 crore in FY23 from Rs.152.92 crore in FY22. The overall gearing and TOL/TNW ratios continued to remain comfortable at 0.73x and 1.85x respectively as on FY23 end as against 0.42x and 1.87x respectively FY22 end, mainly due to the accretion of the profits earned for the year to the reserves. Due to the decline in profitability, the interest coverage ratio and total debt/ GCA moderated from 12.83x and 1.24x to 6.91x to 3.59x respectively.

Government support to the sugar industry

The company benefits from Government support to the sugar industry in the form of low-cost soft loans and interest subvention schemes, among others, which materially impact the profitability of the domestic sugar industry. The company is likely to continue to benefit from the sugar export subsidy from the Government of India as in the past fiscal.

Key Rating Weaknesses

Working capital intensive operations, cyclicality in the sugar business

Since sugar is an agro-based commodity. Hence, the sugar inventory is piled up during the crushing season and gradually released till the commencement of the next crushing season, resulting into high inventory carrying cost, high inventory days and requirement of higher working capital. RSL's operating cycle continued to remain moderate at 44 days in FY23. However, RSL's inventory days remained elongated at 133 days, which was funded from the creditor days of 115 days, as on balance sheet date and this was mainly in lines with the nature of business of the company.

Exposed to vagaries of nature

Being an agro-based industry, performance of RSL is dependent on the availability of sugarcane crop and its yield, which may get adversely affected due to adverse weather conditions. The



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climatic conditions and pest related attacks have a bearing on the cane output, which is the primary feedstock for a sugar producer. Climatic conditions, to be precise the monsoons influence various operational structures for a sugar entity, such as the crushing period and sugar recovery levels. In addition, the degree of dispersion of monsoon precipitation across the sugar cane growing areas also leads to fluctuating trends in sugar production in different regions.

Exposure to risk related to government regulations

The Sugar industry is highly exposed to risks related to Government regulations. Various Government Acts virtually governs all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by - product pricing. Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market. Moreover, ethanol-blending policy is also highly regulated by the government. Vulnerability in business due to Government regulations is likely to continue over the medium term.

Cyclical nature of the sugar business

The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country with typical sugar cycles lasting three five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of assigning Rating Outlook](#)

[Rating Methodology for Manufacturing companies](#)

[Financial Ratios and Interpretation \(Non- Financial Sector\)](#)

Liquidity – Adequate

RSL's liquidity position remained adequate marked by current ratio of 1.11x as at March 2023 end. Inventory day of RSL remained high in the range of 110-135 days primarily funded through



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high creditors' day of 110-155 days for the last four years ended on March 2023. Cash and Cash equivalents stood at Rs.30.27 crore as on March 2023 end. Further, RSL has envisaged capex of Rs.90 crore during FY24-FY25 which will be partially funded through debt of Rs.7.00 crore and balance through internal accruals.

About the Company :

RSL was incorporated in 1991. RSL operates in Punjab and Uttar Pradesh, and is primarily engaged in the manufacturing of sugar, ethanol and co-generation of power. Power is used captively as well as sold to the State Grids of Punjab and Uttar Pradesh respectively under long term PPAs. RSL has sugar manufacturing facilities at three locations in India viz. Buttar (Punjab), Moradabad (Uttar Pradesh) and Rampur (Uttar Pradesh).

Financials (Standalone) :

(Rs. crore)

For the year ended*/As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1400.29	1627.48
EBITDA	177.69	113.32
PAT	85.21	63.40
Total debt	189.00	374.01
Tangible Net worth	448.99	512.41
Ratios		
EBITDA Margin (%)	12.69	6.96
PAT Margin (%)	6.07	3.84
Overall Gearing Ratio (x)	0.42	0.73

*As per Infomerics' Standards

Status of non-cooperation with previous CRA: Nil

Any other information: Mr. Basant K Bajaj who is the CEO of Infomerics Valuations and Ratings is a Independent Director of Rana Sugars Limited. He was not involved in the rating exercise of this Company in any manner. Also the rating note / rating Letter or any other rating related documents has not been shared with Mr. Basant K Bajaj.



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Rating History for last three years:

Sr. No.	Name of Instrument / Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) and Rating (s) assigned in 2022-23 (PR dated July 2, 2021)	Date(s) and Rating (s) assigned in 2021-22 (PR dated July 2, 2021)	Date(s) and Rating(s) assigned in 2020-21
1.	Long Term Bank Facility – Term Loan	Long Term	27.30	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB+/ Stable	-
2.	Long Term Bank Facility – Cash Credit	Long Term	134.30	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BB+/ Stable	-
3.	Short Term Bank Facility – Bank Guarantee	Short Term	2.00	IVR A3	IVR A3	IVR A4+	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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Annexure 1: Details of Instruments/ Facilities

Name of Instruments/ Facilities	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Term Loan	-	-	June 2029	27.30	IVR BBB-/ Stable
Long Term Bank Facility – Cash Credit	-	-	-	134.30	IVR BBB-/ Stable
Short Term Bank Facility – Bank Guarantee	-	-	-	2.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-Rana-aug23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.