Press Release

Tirupati Sugars Ltd

October 29, 2021

Rating

Instrument	Ratings	Rating Action
Issuer Rating	IVR BB+ (Is)/Positive (Pronounced as IVR Double B Plus with Positive Outlook)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment of the rating to Tirupati Sugars Ltd factors in the long standing of the company in the cane rich Paschim Champaran district of Bihar along with the extensive experience of the promoters which has aided it in maintaining adequate operational efficiencies, as also adequate return indicators and moderate credit metrics in past fiscals. The assigned rating also factors in the fiscal support from the government in the form of soft loans, threshold sugar realizations and cane procurement cost amongst others. However, the rating is constrained by fluctuating revenues and profitability in the past fiscals as also the high working capital intensity on year end sugar holdings. Infomerics also notes TSL's significant investment in group companies which remain non remunerative and have a bearing on the company's liquidity. The ratings also factor in the company's exposure to agro-climatic risks and cyclical trends in sugar business, as also the vulnerability of profitability to volatility in sugar realizations and cane procurement costs.

The positive outlook factors in the current upward trend in the company's sugar realizations which is likely to continue in the near term aiding improvement in its financial metrics. Further, the cane crushing in the current season is likely to improve in the current season enhancing its operational metrics.

Key Rating Sensitivities:

Upward Factors

- Improved share of the byproducts in the revenue mix thereby increasing operating margins.
- Substantial improvement in the credit metrics.
- Recovery of the investments in the group companies.

Downward Factors

- Any substantial stretch in the operating cycle increasing dependence on external borrowings.
- Any substantial reduction in the scale and profitability.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters in the sugar industry, long track of operations

TSL located in Paschim Champaran district of Bihar is managed by Mr. Deepak Yadav and his family members who have a controlling stake in the company. The company over its long existence since 1936 has been able to develop healthy relationship with the cane growers in its catchment area of Bagaha resulting in seamless cane supply.

Favorable geographical set up given its presence in Gandak valley, adequate operational efficiencies

The company catchment area includes Bagaha area which lies broadly alongst the perennial Gandak river. Further, the natural streams inundating the Terai region of Paschim Champaran also provide adequate water and alluvial soil fortification necessary for cane development amongst others. This has resulted in adequate cane availability implied by the average healthy capacity utilizations across various segments (sugar: above 80%, power: above 83% PLF) in the past fiscals; maintenance of the same will be a key monitorable, going forward. Given the favorable topography has also resulted in fairly adequate sugar recovery in the past fiscals. (10.8% in SY2020; 12.0 % in SY2021).

Adequate return indicators; Moderate credit metrics in past fiscals

The debt profile in the past fiscals in line with the industry has remained dominated by working capital followed by the term loans. While the overall gearing has remained at 2.67 times in FY2021, the same remained at 2.49 times in FY2020. Given the adequate absolute profits, the coverage indicators and return indicators have remained satisfactory in the past fiscals. The interest coverage remained at 2.52 times in FY2021 as compared to 2.94 times in FY2020; the DSCR remained at 2.21 times in FY2021 as compared to 2.11 times in FY2020. While RoCE remained at 13.31% in FY2021, the same has remained at 17% in FY2020. RoNW has remained at 18% in FY2021 as compared to 13.5% in FY2020.

Fiscal support from the government in the form of soft loans, threshold sugar realizations and cane procurement cost amongst others

TSL also benefits from the various fiscal incentives extended by the Government to the domestic sugar industry which include subsidy for sugar exported, capital subsidy, soft loans interest subvention scheme. The export subsidy benefit overall has materially impacted the margins of the sugar entities in the past fiscals. The Government of India also fixes the threshold cane procurement price annually, while periodically revising the minimum sugar realizations. The Government has also promoted the manufacturing of ethanol from B-molasses against C-molasses mainly by offering it a relatively higher realization. Measures like the aforesaid collaboratively aid improvement the financials of the sugar companies. Infomerics will continuously follow the developments in the sugar industry and evaluate their impact on sugar companies.

Key Rating Weaknesses

Fluctuating revenues and profitability in the past fiscals

The company hitherto has procured 90% of its revenues from sugar which has been fluctuating followed by revenue from byproducts. The company in FY2021 reported revenues of Rs.393.77 crore as against Rs. 439.35 crore in FY2020 due to decline in sugar sales though given the overall stable by product revenues has aided protected the operating margins at 12.82% in FY2021 as compared to 13.68% in FY2020. Operating margin movement and the share of byproducts in the revenue mix will be a key monitorable, going forward.

High working capital intensity on year end sugar holdings

The firm's operations remain working capital intensive inherent to the sugar industry depicted by the operating cycle of 153 days in FY2021 to 113 days in FY2020 mainly propelled by yearend inventory build-up. The inventory days though have moderated to 100 days in FY2021 to 135 days in FY2020. The inventory consists largely of sugar stocks which are liquidated especially in the first half of a given fiscal.

Significant investments in group companies

TSL since past few fiscals has invested Rs.43.63 crore in various group companies which remain non remunerative in nature. Recovery of the same will be a key monitorable going forward.

Exposure to agro-climatic risks and cyclical trends in sugar business

Cane production remains a function of agro-climatic conditions, which ultimately impacts the volumes and realizations of sugar and its by-products. Lower than expected rainfall in the firm's catchment area can result in restricted cane availability, thus impacting the crushing volumes for the season. Further, the sugar business remains vulnerable to any unfavorable changes in Government policies related to sugar trade.

Vulnerability of profitability to volatility in sugar realizations and cane procurement costs

Typically, the profitability of sugar entities remains driven by sugar realizations and cane procurement costs. Whereas sugar realizations remain mainly market driven, the state governments fix the minimum support price for cane. Any adverse movements in the same impact the contribution margins and, hence, profitability of the sugar mills.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity profile of the company is expected to be adequate especially with accruals projected to be in range of Rs.16.00 crore to Rs.25.00 crore as against the expected annual debt repayments of Rs. 7.30 crore to Rs.7.80 crore in the period FY2022 to FY2024. Though the company has planned capex spend of almost Rs.16.00 crore in FY2022 and about Rs.10.00 crore in FY2023-24, the same is expected to be managed largely from internal accruals.

The company has investments of Rs. 43.63 crore in various companies, adequate recovery of the same also remains crucial to the liquidity. Nonetheless, the average working capital utilisation of the sanctioned limits and drawing power for the 12-month period ending July 2021 remained at 72% and 60% respectively which provides some liquidity comfort though average peak season utilisation has remained above 70%. The cash balance as on March 31,2021 remained at Rs. 0.85 crore. Also, liquidation of the sugar stock at remunerative realisations also remains crucial to the liquidity of the sugar mills.

About the Company

Based out of Bagaha, Dist.West Champaran (Bihar), Tirupati Sugar Mills is managed by Mr. Deepak Yadav and his close relatives. The semi-integrated sugar mill apart from installed sugarcane crushing capacity of 8500 TCD has Power cogeneration operations of 6 MW.

The company was set up as M/s. Ganga Devi Sugar Mills in 1936 with gradual transformation to the current status.

The current board is headed by Shri Deepak Yadav, who is the Chairman-cum-Managing Director. Mr. Deepak Yadav is an Alumni of Harvard Business School (General Management). He has completed his Engineering (B.Tech. Mechanical) from National Institute of Technology, Kurukshetra and M.S. Finance from L.B.S. UK. He is an eminent industrialist having vast industrial experience in diverse fields like sugar, power generation, paper, alcoholic beverages, real estates and hospitality, etc. He looks after the overall management and is the driving force of the company.

Financials (Standalone): **(Rs. Crore)**

For the year ended*/As on	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	439.35	339.77
EBITDA	60.10	50.46
PAT	8.15	13.37
Total Debt	160.41	191.32
Tangible Net Worth	64.31	77.93
EBITDA Margin (%)	13.68	12.82
PAT Margin (%)	1.84	3.39
Overall Gearing Ratio (x)	2.49	2.46

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years:

Sr. No.	Instrument	Current Ratings (Year 2021-22)	Rating History for the past three years		
		Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Issuer Ratings	IVR BB+ (Is)/Positive	--	--	--

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About Infomerics:

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Annexure 1: Details of Facilities

Instrument	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facilities (Rs. Crore)	Rating Assigned/ Outlook
Issuer Ratings	--	--	--	--	IVR BB+ (Is)/Positive

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

Annexure 3: Facility wise lender details (Hyperlink to be added): Not Applicable

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

Annexure 5: Complexity level of the rated Instruments:

Instrument	Complexity Level
Issuer Rating	Simple

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