THE UGAR SUGAR WORKS LIMITED.

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GSTIN NO * **29AAACT7580R1ZD**. ECC No.AAACT7580 RXM001.
(CIN – L15421PN1939PLC006738)

Sec/ Date: 17/11/2023

To,
The Executive Director,
Bombay Stock Exchange Ltd.,
P J Towers, Dalal Street,
Mumbai.
Tel No: (022) 22721234
Fax No: (022) 22721278/22722039

To,
Corporate Communications
National Stock Exchange of India Ltd.
Exchange Plaza, Plot no. C/1, G Block
Bandra-Kurla Complex, Bandra (E)
Mumbai - 400 051
Tel No: (022) 26598148
Fax No: (022) 26598120

Dear Sir,

Sub: Revised Credit rating Received from CARE Rating dated 17th November, 2023.

We are attacheing herewith the letter received from CARE Rating in respect of Credit rating for bank facilities **(CARE BBB-:Stable (Triple B Minus ; outlook : Stable)** dated 17th November, 2023.

This is for your Kind information please.

Thanking you,
Yours faithfully,
For The Ugar Sugar Works Ltd.

Tushar Vasudev Deshpande
Digitally signed by Tushar Vasudev Deshpande
Date: 2023.11.17 15:58:25 +05'30'

Tushar Deshpande
Company Secretary
M. No: A45586

The Ugar Sugar Works Limited

November 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	600.00	CARE BBB-; Stable	Reaffirmed; Outlook revised from Positive

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the outlook assigned to the bank facilities of The Ugar Sugar Works Limited (Ugar) factors in the likelihood of the company earning lower cash accruals during FY24 as against the earlier estimates of CARE Ratings Limited (CARE Ratings) as the company could not operate its recently commenced grain-based distillery plant at optimum capacity utilisation (CU) levels, translating into net loss during H1FY24. The Food Corporation of India (FCI) halted surplus rice supplies to distillery companies, which impacted the availability of raw materials to distillery units, including that of Ugar. Nevertheless, with the sale of sugar stock, the company earned healthy cash flow from operations (CFO) of ₹203 crore in H1FY24, which resulted in a reduction in debt as on September 30, 2023. The crushing season has commenced from the months of October and November for its Ugarkhurd and Jewargi units, respectively. Ugar is likely to generate a healthy profit before depreciation, interest, and taxes (PBDIT) during H2FY24 on back of favourable sugar prices and optimum utilisation of its juice-based distillery unit.

CARE Ratings continues to positively factor in the company's diversification into ethanol production, which has translated into diversified revenue streams, thereby leading to mitigation of the risk related to the cyclical and seasonal sugar industry to a certain extent. Ugar's ability to sustainably improve its CU for ethanol production while maintaining low inventory levels under the sugar segment and offsetting losses in the upcoming quarters will be a key monitorable for its credit profile. The rating also considers the cordial relations with local framers, leading to adequate procurement of cane, and the presence in a high recovery zone, along with the positive push from the government to achieve the ethanol blending programme (EBP) timelines. The rating also derives strength from the experienced promoters and their established presence in the sugar and related industries.

However, these rating strengths are partially offset by the moderate capital structure and debt coverage, albeit significant improvement in FY23, the company's presence in a working capital-intensive nature of business, and its operations in a cyclical and regulated the industry, which is inherent to agro-climactic risk.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustainable scale of operations above ₹1,200 crore with a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 11% and an interest coverage above 4.50x with total outside liabilities (TOL)/tangible net worth (TNW) below 3x.

Negative factors

- Decline in the PBIDLT below 8%.
- Any debt-funded capex, resulting into an overall gearing of >2.50x and total debt (TD)/PBILDT of >5.50x.

Analytical approach: Standalone

Outlook: Stable

The revision in the outlook reflects the lower-than-envisaged profitability for FY24 as the company could not operate its grain-based distillery unit at optimum levels.

Detailed description of the key rating drivers

Key strengths

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Extensive experience of the promoters in the sugar industry

Ugar was set up in the year 1939 in the Ugar Khurd district of Karnataka with an installed capacity of 500 tonne of cane per day (TCD) and has around 85 years of experience in a similar line of sugar business. Currently, the company operates two sugar units – one in Ugar in the Khurd district and another in Jewargi in the Kalaburgi district, both in Karnataka. The company has a total installed capacity of 22,500 TCD with a 59.50-megawatt (MW) co-generation unit and an 845-kilolitre per day (KLPD) (45 KLPD molasses-based and 800 KLPD direct route, ie, cane juice or syrup route-based) ethanol plant during the sugar season, which can be converted into a 400-KLPD grain-based ethanol plant during the offseason, of which 250 KLPD was commissioned in April 2023. The company is part of the Shirgaokar Group (SB group) and is actively managed by Neeraj Shirgaokar and Chandan Shirgaokar in the capacity of managing directors of the company, supported with an experienced management team. Chandan Shirgaokar is also the current President of the All-India Distillery Association (AIDA).

Integrated business model with diversified revenue streams

Ugar's Khurd unit currently operates a 20,000 TCD sugar plant and a co-generation unit with an installed capacity of 44 MW and the company had an existing molasses-based distillery with an installed capacity of 45 KLPD, which was primarily used for spirit and Indian-made foreign liquor (IMFL). In December 2022, the company commissioned its 800 KLPD sugarcane juice-based distillery operations for the production of ethanol. The integrated nature of operations mitigates the risk associated with the volatility in sugar prices and its cyclical nature to some extent. Furthermore, the plant also has a capacity of 400 KLPD grain-based ethanol during the off season, of which 250 KLPD was commissioned in April 2023, which was supposed to help the company earn additional revenue in the sugar offseason. However, the plant operated at sub-optimum capacity of 30% on account of the unavailability of grains from the FCI. During H1FY24, the said plant was operational for only two months and Ugar could produce 126 lakh litres as against the expectation of 352 lakh litres. The company has another unit at Jewargi with a 2,500 TCD capacity. The unit is partially integrated with a co-generation installed capacity of 15.5 MW. However, the company does not have any other distillery capacity under the Jewargi unit.

Satisfactory scale of operations and profitability during FY23, but moderation in performance in H1FY24

In December 2022, the company commissioned its 800 KLPD direct or juice-based distillery unit for ethanol production, which contributed to around 22% of the total revenue in FY23. With the company starting its cane juice-based ethanol production and clearance of sugar stock, sales have improved by more than 57% during FY23 and stood at ₹1,800 crore when compared to ₹1,144 crore in FY22. The same also translated into improvement in the PBILDT margin to 11.93% in FY23 when compared to 8.76% in FY22. However, there has been moderation in performance of the company and Ugar has booked a net loss of ₹42.34 crore in H1FY24 on account of multiple reasons, such as the seasonality associated with the sugar industry and the underutilisation of grain-based capacity during offseason. The crushing season has commenced from the month of October and the company is likely to offset the losses during Q3FY24. However, as per CARE Ratings' estimates, Ugar is likely to report a PBDIT lower by 20% than the original estimates.

Adequate procurement of cane and presence in a high recovery zone

The sugar plant of Ugar is located in the sugarcane cultivation area in Ugar-Khurd and Jewargi in Karnataka. The command area of Ugar comprises over 80 villages with total land under sugarcane cultivation to the tune of about 76,000 acre. The nearby sugar factories to the Ugar-Khurd unit includes Athani Sugars Limited (rated 'CARE BBB-; Stable'), Shiraguppi Sugars Works Limited, and Raibaug SSK, and close to the Jewargi unit is Renuka Sugars Limited. The command area has been well irrigated over the years with consistent supply of water through rivers like Krishna, which is around 1 km from the plant and from which water is distributed to agricultural lands and industries in the region in which the Ugarkhurd and Jewargi units are located respectively.

The favourable climatic conditions and adequate irrigation facilities have rendered sugarcane with a high recovery rate ranging between 11.5-12.0%. Furthermore, the promoters have a wide acceptance among local farmers and enjoy cordial relationships, facilitating the company's cane procurement initiatives on such a large scale (average crushing of around 20 lakh metric tonne [MT] during the past three crushing seasons).

Key weaknesses

Moderate capital structure and debt coverage, albeit improved in FY23

Ugar recently completed a debt-funded capex of an ethanol plant and has availed additional guaranteed emergency credit line (GECL) loans to fund the working capital requirements and to prepay the high-cost debt of the company, resulting in a higher term loan outstanding as on March 31, 2023. The ethanol plant was commissioned and was operational during the sugar season, which led to faster cash realisations for ethanol sales, resulting in lower dependence on the working capital borrowings. In the past, Ugar's working capital borrowing levels remained high due to the higher sugar stock maintained by the company, which was liquated during the year, resulting in an overall gearing of 1.58x as on March 31, 2023, when compared to 5.80x as on March

31, 2022. The TOL/TNW improved and stood at around 3.12x as on March 31, 2023, as compared to 8.85x as on March 31, 2022, on account of accretion of profits.

Underutilisation of grain-based ethanol capacity and loss reported in H1FY24 but healthy CFO
Ugar commenced operations of 250 KLPD (out of 400 KLPD) of grain-based ethanol capacity, which was supposed to operate during the offseason (i.e., April to October). However, the plant operated at a sub-optimum capacity of 30% on account of the unavailability of grains from the FCI. During H1FY24, the said plant was operational for only two months and the company could produce 126 lakh litres as against the expectation of 352 lakh litres. During H1FY24, Ugar has reported a net loss of ₹42.34 crore on account of multiple reasons, which include the seasonality associated with the sugar industry and the underutilisation of grain-based capacity during the offseason. Moreover, there were old settlements of ₹7 crore that were recorded in H1FY24. Nevertheless, with the sale of sugar stock, Ugar earned healthy CFO of ₹203 crore in H1FY24.

Working capital-intensive nature of the business
The sugar industry being seasonal in nature has high working capital requirements during the peak season, which is from October to April, as this is the season of procurement and crushing. Companies in this industry have high working capital requirements during the peak season and to procure their primary raw material, ie, sugarcane and manufacture sugar during this period. The operating cycle of the company generally remains elongated, however, the sale of sugar stock during the year coupled with the diversion of sugarcane to ethanol has led to lower inventory days, which stood at around 130 days in FY23 as compared to 245 days in FY22 and 252 days in FY21, resulting in an improvement in the operating cycle of the company, which stood at 113 days for FY23 as compared to 206 days in FY22. In relation to the receivables for ethanol sales, the company receives payments from oil manufacturing companies (OMCs) within 20 days from the date of sale to customers and receives the payments within one month from Escoms for the sale of power. Ugar clears its creditors, ie, farmers generally within 14-15 days.

Cyclical and regulated nature of the industry and inherent to agro-climactic risk
The industry is cyclical by nature and is vulnerable to government policies for various factors such as its importance in the wholesale price index (WPI), as sugar is classified as an essential commodity. The governments (both Union and state) resort to various regulations such as fixing the raw material (sugarcane) prices in the form of fair and remunerative prices (FRP) and state advised prices (SAP). Furthermore, the sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro-climatic risks including pests and diseases. Climatic conditions, more specifically, the monsoons, influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels. All these factors impact the cultivation patterns of sugarcane in the country, and thus, affect the profitability of sugar companies.

India also continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the government. Thus, the company's performance can be impacted by the disproportionate increase in cane prices in any particular year. Furthermore, the profitability remains vulnerable to the government's policies on exports, MSP, and remunerative ethanol prices. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in sugar prices has been curtailed after the introduction of MSP by the Central Government in June 2018. Furthermore, healthy exports and higher diversion of sucrose towards ethanol in recent years have resulted in favourable demand-supply dynamics in the country, thus resulting in improved current realisations. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice by the industry is expected to help in curtailing the excess supply of sugar, resulting in lower volatility in sugar prices and cash flows from the sugar business.

Liquidity: Adequate
The liquidity profile of the company is assessed to be adequate due to the improvement in the working capital cycle, which is likely to sustain following the commissioning of the ethanol division. The company's presence and operations into both, grain-based and direct sugar juice-based ethanol production capacity will ensure regular cash flows throughout the year going forward, as this was a trial year for grain-based ethanol production and also the plant being operational at a sub-optimum capacity of 30% only on account of the unavailability of grains from the FCI. The company has un-encumbered cash and cash equivalents of ₹1.95 crore as on September 30, 2023. The working CU was moderate with an average (of month-end utilisation) working capital utilisation of 61% during the six months ended September 30, 2023.

Applicable criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

[Manufacturing Companies](#)
[Sugar](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast-moving consumer goods	Fast-moving consumer goods	Agricultural food and other products	Sugar

Ugar was set up in the year 1939 in the Ugar Khurd district of Karnataka, with an installed capacity of 500 TCD. Currently, the company operates two sugar units – one in Ugar in the Khurd district and another in Jewargi in the Kalaburgi district, both in Karnataka. The company has a total installed capacity of 22,500 TCD with a 59.50-MW co-generation unit and a 45-KLPD molasses -based distillery. During FY23, the company commissioned its 800 KLPD direct route (cane juice or syrup route)-based ethanol plant, which can be converted into a 400-KLPD grain-based ethanol plant during the offseason, of which 250 KLPD was commissioned in April 2023. The company is part of the Shirgaokar Group (SB group) and is actively managed by Neeraj Shirgaokar and Chandan Shirgaokar in the capacity of managing directors of the company, supported by an experienced management team.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	September 30, 2023 (UA)
Total operating income	1,144.30	1,800.59	428.28
PBILDT	100.22	214.80	-7.96
PAT	43.32	103.05	-42.34
Overall gearing (times)	5.80	1.58	1.70
Interest coverage (times)	2.30	4.44	NM

A: Audited; UA: Unaudited; NM: Not meaningful. Note: The above results are the latest financial results available.

Status of non-cooperation with previous CRA: Nil

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit	-	-	-	-	437.50	CARE BBB-; Stable
Fund-based - LT-Term loan	-	-	-	March 2028	162.50	CARE BBB-; Stable

Annexure-2: Rating history for the last three years

Sr. No.		Current Ratings	Rating History

	Name of the Instrument/Bank Facilities	Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term loan	LT	162.50	CARE BBB-; Stable	1)CARE BBB-; Positive (19-Jul-23)	-	-	-
2	Fund-based - LT-Cash credit	LT	437.50	CARE BBB-; Stable	1)CARE BBB-; Positive (19-Jul-23)	-	-	-

LT: Long term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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