Mr Basant Kumar Bajaj Additional Director & CEO of IVRPL is the Non-Executive, Non-Independent Director of Rana Sugar 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 Kumar Bajaj.

Rana Sugars Limited (RSL)

September 05, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	161.15 (reduced from Rs.161.60 crore)	IVR BB; Rating watch with Negative Implications (IVR Double B; Rating watch with Negative Implications)	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Rating Downgraded / Assigned and placed under Rating Watch with Negative Implications	Simple
Short Term Facilities	2.00	IVR A4; Rating watch with Negative Implications (IVR A Four; Rating watch with Negative Implications)	IVR A3 (IVR A Three)	Rating Downgraded and placed under Rating Watch with Negative Implications	Simple
Total	**163.15 (Rupees One Hundred and Sixty-Three Crore and fifteen Lakhs only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The downgrade and placement of the rating under watch with negative implications to the Bank facilities of Rana Sugars Limited (RSL) reflects reputational risk arises out of recently passed SEBI order on corporate governance issues and diversion of funds from RSL to directors through non-disclosed group companies during the audit period which was from FY15 (refers to the period from April 01, 2014 to March 31, 2015) to FY21 (refers to the period from April 01, 2020 to March 31, 2021). The downgrade in the rating also takes cognizance of the decline in the turnover in FY24 (refers to the period from April 01, 2023 to March 31, 2024) and Q1FY25 (refers to the period from April 01, 2024 to June 30, 2024), alongwith the decline in the profitability.

The rating however takes comfort from the experienced promoters with long track record in sugar industry, integrated nature of operations, PPAs providing long term revenue visibility, healthy financial risk profile, and its adequate liquidity position.

The rating however remains constrained by the working capital-intensive operations, cyclicality in the sugar business, exposed to vagaries of nature, exposure to risk related to government regulations and cyclical nature of the sugar business.

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.

Downward Factors

- Any adverse impact on the company operational / financial performance on account of recent SEBI order.
- 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 in sugar industry

The company was managed by the promoter Rana Inder Pratap Singh (Ex-Managing Director), Mr. Rana Veer Pratap Singh (Manging Director) and Mr. Rana Ranjit Singh (Director) and have established healthy customer and suppliers' relations over the years.

Recently Rana Inder Pratap Singh has stepped down from his post as MD of the company and Mr. Rana Veer Pratap Singh has taken his place as the MD of RSL. Even Mr. Rana Veer Pratap Singh has extensive experience from the same company and other group companies.

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 cogeneration of power. The cogeneration and distillery units provide alternate revenue streams and some cushion against cyclicality 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 112.65 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

Healthy financial risk profile

RSL's total operating income (TOI) reduced by 2.14% in FY24 as compared to FY23 and stood at Rs.1592.62 crore, as a result of decline in the turnover in all the three segments. At the same time the margins showed decline in trend with EBITDA margin of 5.20% and PAT margin of 1.74% respectively (FY23 : 6.96% & 3.84% respectively). With the dip in the profitability the GCA reduced by ~35% to Rs.66.63 crore in FY24 from Rs.104.22 crore in FY23. The overall gearing and TOL/TNW ratios continued to remain comfortable at 0.75x and 1.79x respectively as on March 31, 2024 as against 0.73x and 1.86x reported as on March 31, 2023, respectively, mainly due to the accretion of the profits earned for the year to the reserves. Due to the decline in profitability on y-o-y basis, the interest coverage ratio and total debt/ NCA moderated from 4.95x to 3.59x respectively reported as on March 31, 2023 to 2.92x and 6.05x respectively reported as on March 31, 2024. The company's revenue decreased by 7.58% in Q1FY25 as compared to Q1FY24. Mainly due to the reduction in the sales of sugar and power segment by 27% and 31% respectively on Q-o-Q basis. The effect of this reduction was partially offset by the increase in the distillery income by around 20% Q-o-Q basis. Due to this the company's EBITDA margin reduced by 37.56% in Q1FY25 as compared to Q1FY24. Similarly, its PAT decreased in Q1FY25 to Rs.1.90 crore from Rs.15.37 crores reported in Q1FY24.

Key Rating Weaknesses

SEBI order dated August 27, 2024 against RSL

SEBI, under Prohibition of Fraudulent and Unfair Trade Practices Relating to Securities Market) Regulations, 2003 ("PFUTP Regulations") and Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015 ("LODR Regulations"), investigated the financials of RSL for a period starting from FY15 to FY21. Upon investigation SEBI alleged that the company along with its promoter directors including its Managing Director, Chairman and other family members has diverted funds to the accounts of the promoter group and family through some non-disclosed group companies which are indirectly controlled by the Ex-Managing Director of RSL, ie Mr Rana Inder Pratap Singh. Also SEBI observed that funds transferred to these group companies were interest free. Through numerous summons explanations were called from RSL, its directors and the non-disclosed group companies, as mentioned in the SEBI order, however majority of the questions remained unanswered. A total of Rs.339 crore as loans and advances with an interest loss calculated for RSL to the tune of Rs.268 crore (considering 12% rate of interest p.a.), leading to Rs.607 crore, has to be returned / paid to RSL. SEBI has charged Rs.7 crore to RSL and penalties in the range of Rs.3-7 crore to individual directors. Also certain restrictions have been placed on the directors against taking a part of board for any other listed company for a period of 2 years and refrained them from buying or selling any securities. RSL has informed that they will file an appeal against this order. The further developments regarding this order will remain a key rating monitorable.

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 68 days as on March 31, 2024. However, RSL's inventory days remained elongated at 142 days, which was funded from the creditor days of 105 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 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:

Rating Methodology for Manufacturing Companies.

Criteria on assigning rating outlook

Policy for placing the rating on Rating watch

Policy on Default Recognition and Post-Default Curing Period

Complexity Level of Rated Instruments/Facilities

Financial Ratios & Interpretation (Non-Financial Sector).

Liquidity – Adequate

RSL's liquidity position remained adequate marked by average repayment of around Rs.14 – 24 crore in the projected period from FY25 to FY27, against the projected GCA of Rs.94-100 crore. Due to the increase in the working capital requirements and capex expansion of around Rs.96.54 crore in the year FY24 through internal accruals, the current ratio moderated on y-o-y basis to 1.06x, from 1.11x, albeit remained above unity. Due to the nature of the business and the seasonality of the product, the inventory remained high as on March 31, 2024, leading to elongated inventory holding period of 142 days as on March 31, 2024, primarily funded through high creditor holding period of 105 days. Cash and Cash equivalents stood at Rs.12.67 crore as on FY24 end. Further, RSL has envisaged capex of Rs.90 crore during FY24-FY26 which will be majorly funded through internal accruals. Also the utilization of the fund based limits remained moderate with ~83% average utilization for the past 12 months ended in April 2024.

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*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	1627.48	1592.62
EBITDA	113.33	82.79
PAT	63.40	27.98
Total Debt	384.80	410.78
Tangible Net Worth	423.42	480.56
EBITDA Margin (%)	6.96	5.20
PAT Margin (%)	3.84	1.74
Overall Gearing Ratio (x)	0.91	0.85
Interest Coverage (x)	4.95	2.92

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: None

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
					August 23, 2023	May 24, 2022	July 02, 2021
1.	Cash Credit	Long term	134.30	IVR BB; Rating watch with Negative Implications	IVR BBB-; Stable	IVR BBB-; Stable	IVR BB+; Stable
2.	Term Loan	Long term	26.85	IVR BB; Rating watch with Negative Implications	IVR BBB-; Stable	IVR BBB-; Stable	IVR BB+; Stable
3.	Letter of Credit / Bank Guarantee	Short term	2.00	IVR A4; Rating watch with Negative Implications	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: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	134.30	IVR BB; Rating watch with Negative Implications

Term Loan	-	-	-	June 2029	26.85	IVR BB; Rating watch with Negative Implications
Letter of Credit / Bank Guarantee	-	-	-	-	2.00	IVR A4; Rating watch with Negative Implications

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Rana-Sugar-05sep24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.