

Press Release

Mahakaushal Sugar & Power Industries Limited (MSPIL)

06 March, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs.10.00 Cr
Long Term Rating	SMERA BBB-/Stable (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of **'SMERA BBB-' (read as SMERA triple B minus)** on the Rs 10.00 crore bank facilities of Mahakaushal Sugar & Power Industries Limited (MSPIL). The outlook is **'Stable'**.

MSPIL was incorporated as a private limited company in 2005 and converted to public limited (unlisted) subsequently. The company, promoted and managed by Mr. Nawab Raza and Mrs. Asmat Raza, is engaged in the manufacture of sugar. Currently, MSPIL has sugar manufacturing facilities at Narsinghpur district, Madhya Pradesh with installed capacity of 4500TCD.

Strengths:

Experienced Promoters

MSIPL was established in 2005. The company is promoted and led by Mr. Nawab Raza and Mrs. Asmat Raza who possess experience of more than a decade in the sugar industry. The promoters have been able to establish long term relations with customers and suppliers.

Favourable location:

The manufacturing plant is located at Bachai, district Narsinghpur of Madhya Pradesh in close proximity to regions that cultivate sugarcane. The company has total installed capacity of 4500 TCD and further plans to increase capacity to 6000 TCD. The company also has a bagasse based captive power plant of 24.8 MW.

Healthy revenue growth

The revenues have grown at a CAGR of 18 percent from FY2014 to FY2017. The installed capacity increased to 4500 TCD in FY2017. The company registered revenue of Rs. 132.23 crore in FY2017, Rs. 116.30 crore in FY2016 and Rs. 107.63 crore in FY2015. Further, in FY2018 (Provisional) the company booked revenue of Rs. 75.81 crore from April to December, 2017. MSPIL expects to register revenue of ~Rs.150 crore in FY2018.

Healthy financial risk profile

The financial risk profile of the company is healthy marked by gearing of 0.86 times as on 31 March, 2017 as against 1.17 times in the previous year. The Interest Coverage Ratio stood at 4.39 times for FY2017 as against 3.49 times in FY2016. The DSCR stood at 1.62 times for FY2017 as against 2.56 times in the previous year. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.31 times in FY2017 as against 0.19 times in FY2016. The tangible net worth is healthy at Rs.50.70 crore as on 31 March, 2017 (treating unsecured loans of Rs.15.16 crore as equity).

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Forward integration of by-products

The optimal utilisation of by-products like molasses and bagasse are the key differentiating factors and are expected to give an added advantage to the company. The installed capacity stands at 24.80 MW per annum capacity for generation of power through bagasse. Initially power generated from bagasse was for captive use. However, with necessary approvals in place the company has executed exclusive power selling agreement with Madhya Pradesh power generating company.

Weaknesses

Working capital intensive operations, cyclical in the sugar business

Sugarcane is an agro-commodity. Its availability is seasonal with October to April being the sugar crushing season. The company needs to stock its finished products during the season and sell the same throughout the year as per market demand leading to high inventory levels.

The company has working capital intensive operations marked by GCA days of 153 days in FY2017 as against 209 days in FY2016. The inventory days stood at 142 days in FY2017 as against 177 days in FY2016. The creditor days stood at 61 days in FY2017 as against 116 days in FY2016. The average bank limit utilisation stood at ~83 percent for the last six months ended January 2018.

Dependence on government policies

The sugar industry is highly regulated by the government. Any unfavourable changes in government policies may have a bearing on the company.

Competitive and fragmented industry

The company is exposed to intense competition in the industry from other players. Besides, sugar prices are dependent on demand-supply gap thereby restricting the bargaining power with customers.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Mahakaushal Sugar & Power Industries Limited to arrive at the rating.

Outlook - Stable

SMERA believes that MSPIL will maintain a stable outlook over the medium term on account of its experienced management and established operational track record. The outlook may be revised to 'Positive' if the company significantly scales up its operations while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company undertakes higher than expected debt-funded capital expenditure or stretch in working capital requirements, leading to deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	132.23	116.30	107.63
EBITDA	Rs. Cr.	20.24	14.44	13.67
PAT	Rs. Cr.	7.08	2.96	3.42
EBITDA Margin	(%)	15.30	12.42	12.70
PAT Margin	(%)	5.35	2.55	3.18
ROCE	(%)	15.14	10.06	25.86
Total Debt/Tangible Net Worth	Times	0.86	1.17	0.88
PBDIT/Interest	Times	4.39	3.49	3.64
Total Debt/PBDIT	Times	2.14	3.39	2.29
Gross Current Assets (Days)	Days	153	209	201

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Not Applicable

Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB-/Stable (Assigned)

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ABOUT SMERA

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