

Press Release

The Krishna Sahakari Sakkare Karkhane Niyamit

November 12, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 311.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs. 311.00 crore bank facilities of The Krishna Sahakari Sakkare Karkhane Niyamit. The outlook is '**Stable**'.

The Krishna Sahakari Sakkare Karkhane Niyamit (KSSKN) was registered in March 1981 as a co-operative society under the Karnataka Cooperative Societies Act, 1959. The society has a sugar mill with an installed capacity of 5500 TCD and 27 MW co-gen plant.

Analytical Approach

Acuité has considered standalone business and financial risk profile of the company to arrive at the rating.

Key Rating Drivers

Strengths

- **Favourable Location of the plant**

The plant is located in Athani Taluka of Belgaum district in North Karnataka. Athani is one of the largest sugarcane cultivation talukas in Karnataka. Athani benefits from its proximity to the Krishna River which facilitates the cultivation of Sugarcane.

- **Experienced Management**

KSSKN commenced its commercial operations in FY2003 and the promoters have more than 20 years of experience in the sugar industry. The promoters have gained good insight about the industry over the years and have developed healthy customer and supplier relations

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Assets days of 374 in FY2018, which has increased from 302 days in FY2017. The high GCA days are due to inventory days of 362 in FY2018 which has increased from 299 days in FY2016. The inventory days are high as sugar mills generally start crushing of sugarcane in the month October upto March/April, the sugar mills have to stock up the inventory at the end of March which sold off in the later months leading high inventory days.

- **Below Average Financial Risk Profile**

The net worth of the company stood at Rs.35.28 crore as on 31 March, 2018 compared to Rs.34.09 crore as on 31 March, 2017. The gearing stood high at 7.25 times as on 31 March, 2018 as against 8.10 times as on 31 March, 2017. KSSKN is highly levered as the company had incurred debt funded capital expenditure to increase its production capacity from 4000 TCD to 5500 TCD and power production capacity from 12 MW to 27 MW. The total debt of the company increased from ~Rs 150.00 crore in FY2015 to Rs. 255.64 in FY2018. The interest coverage ratio (ICR) stood at 1.94 times in FY2018 as against 1.73 times in FY2017.

- **Cyclicalities associated with sugar industry**

The operation of company is dependent on sugarcane production which is highly dependent on the

monsoon and prices prevailing in the alternative crops such as rice and wheat. The sector is also marked by the presence of several other players which lead to intense competition from the other players.

- **Susceptibility of profitability to volatility in material prices**

Sugarcane and other by-products manufactured by the company remain extremely sensitive to fluctuations in commodity prices thereby impacting the overall revenue and profitability profile of the company. Sugarcane production is highly dependent on the monsoon and a fluctuation in FRP (Fair Remunerative Price) will have a bearing on the overall revenue and profitability.

Outlook: Stable

ACUITE believes that KSSKN 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	227.57	260.37	191.85
EBITDA	Rs. Cr.	32.65	36.72	27.86
PAT	Rs. Cr.	1.17	1.59	1.21
EBITDA Margin	(%)	14.35	14.10	14.52
PAT Margin	(%)	0.52	0.61	0.63
ROCE	(%)	6.01	8.25	15.57
Total Debt/Tangible Net Worth	Times	7.25	8.10	6.32
PBDIT/Interest	Times	1.94	1.73	1.57
Total Debt/PBDIT	Times	7.80	7.49	7.71
Gross Current Assets (Days)	Days	374	302	453

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

NA

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>

Note on complexity levels of the rated instrument

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

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE B / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE B/ Stable

Term loans	Not Applicable	Not Applicable	Not Applicable	38.57	ACUITE B/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	104.49	ACUITE B/ Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	17.94	ACUITE B/ Stable

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About Acuité Ratings & Research:

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