Press Release

Sant Muktai Sugar and Energy Limited

January 03, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	60.00	ACUITE B+ | Stable | Reaffirmed	
Total	60.00	-	-

* Refer Annexure for details.

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE B+' (read as ACUITE B plus)** to the Rs. 60.00 crore bank facilities of **Sant Muktai Sugar And Energy Limited (SMSEL)**. The outlook is **'Stable'**.

Rationale for rating reaffirmation

The rating reaffirmation consider the comforts drawn from stable business risk profile and experience of management. SMSEL's financial risk profile continues to remain average. Acuite expects the business and financial performance to improve over the medium term due to improvement in the Covid-19 and demand scenario. However, the rating remains constrained on account of intensive working capital operations, stretched liquidity position and cyclicality associated with sugar industry.

About the Company

SMSEL was incorporated in 2013. The commercial operations of the company commenced in December, 2014. The company is engaged in manufacturing of sugar and power cogeneration. The unit is located in Jalgaon (Maharashtra) and has crushing capacity of 2500 tonnes crushed per day (TCD). SMSEL also has a co-generation plant of 12 mega-watts (MW). SMSEL is a part of the Shraddha Group (SG), promoted by Jadhav family.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management

SMSEL is a part of Shraddha Energy and Infraprojects Private Limited that was incorporated in 2003. Promoted by Mr. Shivaji Jadhav, the promoter has experience in the sugar industry for nearly a decade and power and civil construction industry for nearly three decades. The promoter's good industry insights have helped the company to develop long-standing relations with its customer and suppliers.

Weaknesses

Working capital intensive nature of operations

The working capital management of the company is intensive marked by GCA days of 560 days in FY2021 as against 263 days in FY2020. the high GCA days is due to elongation in inventory days which stood at 544 days in FY2021 as against 248 days in FY2020. Also, the debtor days stood at 45 days in FY2021 as against 24 days in FY2020. The average bank limit utilization stood high at around 97.82 percent for the last 7 months ended October 2021. Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Modest scale of operation and decline in profitability margin

The operating income of the company stood at Rs.81.16 crore in FY2021 as against Rs.96.45 crore in FY2020. The revenue of the company has declined by 15.85 percent. This has impacted the operating margin of the company which declined and stood at 8.74 percent in FY2021 as against 12.18 percent in FY2020. PAT margin stood at negative (23.39) percent in FY2021 as against negative (16.94) percent in FY2020. The reason for decline in revenue and margin is due to Covid-19 impact and lockdown restrictions, lower demand, unavailability of proper transport facility and decline in selling price due to reduced demand. Currently, the company has recorded a revenue of Rs.68.19 crore till October 2021 and are expecting to record a revenue of around Rs.90-100 crore for FY2022.
Acuité believes that SMSEL's ability to improve the scale of operations and profitability margin will be a key rating sensitivity.

Cyclicality associated with sugar industry and susceptibility of profitability to volatility in raw material prices

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

Rating Sensitivities

- Improvement in the scale of operations and profitability margins leading to improvement in overall financial risk profile.
- Further stretch in the working capital cycle and liquidity profile of the company.

Material covenants

None.

Liquidity Position: Stretched

The company has stretched liquidity marked by negative net cash accruals to its maturing debt obligations. The company's working capital operation stood intensive marked by GCA days of 560 days in FY2021 as against 263 days in FY2020. The company maintains an unencumbered cash and bank balances of Rs.0.31 crore as on March 31, 2021. The current ratio of the company stood at 0.98 times as on March 31, 2021. The average bank limit utilization stood high at around 97.82 percent for the last 7 months ended October 2021.

Outlook: Stable

Acuité believes the company will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company shows improvement in the scale of operations and profitability margin while improving its financial risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's revenue or profitability or significant deterioration in the working capital cycle leading to deterioration in its financial risk profile and liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	81.16	96.45
PAT	Rs. Cr.	(18.98)	(16.34)
PAT Margin	(%)	(23.39)	(16.94)
Total Debt/Tangible Net Worth	Times	6.61	5.00
PBDIT/Interest	Times	0.35	0.56

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

Not Applicable.

Any other information

None.

Applicable Criteria

• Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
• Entities In Manufacturing Sector -https://www.acuite.in/view-rating-criteria-59.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History

Date	Name of Istruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Oct 2020	Term Loan	Long Term	0.76	ACUITE B+ | Stable (Upgraded from ACUITE B | Stable)
	Proposed Bank Facility	Long Term	3.49	ACUITE B+ | Stable (Upgraded from ACUITE B | Stable)
	Cash Credit	Long Term	30.00	ACUITE B+ | Stable (Upgraded from ACUITE B | Stable)
	Term Loan	Long Term	25.75	ACUITE B+ | Stable (Upgraded from ACUITE B | Stable)
22 Jan 2019	Cash Credit	Long Term	30.00	ACUITE B | Stable (Reaffirmed)
	Term Loan	Long Term	1.42	ACUITE B | Stable (Assigned)
	Term Loan	Long Term	28.58	ACUITE B | Stable (Assigned)
11 Jan 2019	Cash Credit	Long Term	30.00	ACUITE B | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE B+ | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE B+ | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.