

Press Release

Sant Muktai Sugar And Energy Limited

March 24, 2023

Rating Reaffirmed



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

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on 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 of SMSEL takes into account improvement in the company's operational performance in FY2022. It also draws comfort from company's experienced management and established track record of operations. The rating is however constrained by the company's weak financial risk profile marked by negative networth & gearing, modest debt protection metrics and high dependence on bank borrowings for working capital requirements. Going forward, ability of the company to improve its financial risk profile, maintain an efficient working capital cycle and to maintain its scale of operations while improving its net profit margin will remain a key rating sensitivity factor.

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

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

Key Rating Drivers

Strengths

Experienced management and established track record of operations

SMSEL has an operational track record of nearly a decade and is a part of Shraddha Energy and Infraprojects Private Limited which was incorporated in 2003. The company is promoted by Mr. Shivaji Jadhav who possess experience of nearly a decade in the sugar industry and nearly three decades of experience in the power and civil construction industry. He is supported by its team of experienced professionals in managing day to day operations of SMSEL. The extensive experience of the management has enabled SMSEL to establish a healthy relationship with its customers and suppliers.

Acuité believes that SMSEL will continue to benefit from its experienced management and established track record of operations.

Improving operating performance albeit moderation in profitability

SMSEL reported an increase in its revenues of Rs.162 Cr for FY2022 as against Rs.82 Cr in FY2021 which is a growth of ~100 percent and has achieved this on account of improved sales realisation backed by improved cane crushing and sugar recovery during the year. The company also entered into export sale of its sugar and other by products during FY2022 through merchant exports to countries like Indonesia & Sri Lanka which further boosted the company's scale of operations.

The operating margin of the company stood improved at 11.95 percent in FY2022 as against 8.74 percent in FY2021 on account of overall improvement in the company's scale of operations. However, the net profit margin of the company still remained negative at (4.17) percent in FY2022 as against (23.39) percent on account of high interest cost and depreciation incurred during the year.

For the current year as on 9M FY2023, SMSEL has achieved revenue of Rs.159 Cr as against Rs.103 Cr of 9M FY2022 and further it expects to generate revenue of Rs.170 Cr – Rs.180 Cr by year end.

Acuité believes that the ability of SMSEL to maintain its scale of operations while improving its net profit margin in near to medium term will remain a key rating sensitivity factor.

Weaknesses

Weak financial risk profile

Financial risk profile of SMSEL is weak marked by its negative networth & gearing and modest debt protection metrics. The networth of the company stood negative at Rs.(2.98) Cr as on 31 March, 2022 as against Rs.17 Cr as on 31 March, 2021 on account of negative reserves and surplus marked by accumulated losses on a year on year basis.

The amount of quasi equity in the form of unsecured loans and advances availed by SMSEL from its parent company Shraddha Energy & Infraprojects Pvt. Ltd. which stood at Rs. 70 Cr in FY2022 was replaced by non-convertible, non-cumulative preference share capital of Rs.75 Cr. The gearing (debt-equity) stood negative at (41.72) times as on 31 March, 2022 as against 6.61 times as on 31 March, 2021 on account of its negative tangible networth vis-à-vis its overall debt profile. The gearing of the company is expected to remain impacted over the medium term on account of its low tangible networth marked by negative reserves and surplus. The total debt of Rs.124 Cr as on 31 March, 2022 consists of unsecured loans and advances from parent company of Rs.70 Cr (which are paid off in FY2023) and short term bank borrowings of Rs.54 Cr.

The interest coverage ratio and DSCR stood improved at 0.92 times and 0.92 times respectively for FY2022 as against 0.35 times and 0.28 times respectively for FY2021. The Net Cash Accruals to Total debt stood negative at (0.01) times for FY2022 as against (0.12) times for FY2021. The Total outside liabilities to Tangible net worth stood negative at (60.24) times for FY2022 as against 8.96 times for FY2021. The Debt-EBITDA ratio stood improved at 6.41 times for FY2022 as against 15.78 times for FY2021.

Acuité believes that ability of SMSEL to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

Working capital intensive nature of operations

The operations of SMSEL are highly working capital intensive marked by its Gross Current Assets (GCA) days of 304 days for FY2022 which stood high albeit improved against 560 days for FY2021. The inventory cycle of the company stood at 283 days in FY2022 as against 544 days in FY2021 on account of increase in unsold inventory of sugar as finished goods lying with the company at the end of the financial year. On the other hand, the debtors stood at 17 days in FY2022 as against 45 days in FY2021 whereas the creditors stood at 112 days in FY2022 as against 218 days in FY2021. The average bank limit utilization for 6 months' period ended

December 2022 stood high at ~96 percent.

Acuité believes that the ability of SMSEL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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

- Ability to maintain scale of operations while improving net profit margin
- Ability to improve financial risk profile
- Ability to improve and maintain an efficient working capital cycle

Material covenants

None

Liquidity position - Stretched

SMSEL has stretched liquidity position marked by negative net cash accruals (NCA) against its low debt repayment obligations and high bank limit utilisation on account of working capital intensive nature of operations. The company is however expected to generate positive NCA of Rs.4 Cr - Rs.12 Cr in the period FY2023 - FY2024 against its low debt repayment obligations of Rs.0.03 Cr during the same period. The working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 304 days for FY2022 as against 560 days for FY2021. The average bank limit utilization for 6 months' period ended December 2022 stood high at ~96 percent. Current ratio stands at 1.16 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.4 Cr in FY2022. Despite of overall stretch in the liquidity position, the debt repayments are timely serviced by the company and there have been no instances of delays as confirmed by the lenders.

Acuité believes that the liquidity of SMSEL is likely to remain stretched over the medium term on account of company's high dependency on bank borrowings marked by its working capital intensive nature of operations.

Outlook: Stable

Acuité believes that SMSEL will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	161.92	81.16
PAT	Rs. Cr.	(6.75)	(18.98)
PAT Margin	(%)	(4.17)	(23.39)
Total Debt/Tangible Net Worth	Times	(41.72)	6.61
PBDIT/Interest	Times	0.92	0.35

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

India Ratings vide its press release dated 28.07.2022, had rated the company to INA-RA D/D; INC

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Jan 2022	Proposed Bank Facility	Long Term	30.00	ACUITE B+ Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE B+ Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE B+ Stable Reaffirmed
Janata Sahakari Bank Ltd (Pune)	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE B+ Stable Reaffirmed

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About Acuité Ratings & Research

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