

Press Release

Belgaum Sugars Private Limited

D-U-N-S® Number: 87-184-6118



February 01, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 150.89 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) to the Rs. 150.89 crore bank facilities of Belgaum Sugars Private Limited (BSPL). The outlook is '**Stable**'.

BSPL was incorporated by Mr. Vithal Rudrappa Parasannavar and Mr. Satish Laxmanrao Jarkiholi in 2007. The commercial operations of the company commenced in November, 2016. The company is engaged in manufacturing of sugar and power cogeneration. BSPL has crushing capacity of 3500 tonnes crushed per day (TCD). BSPL also has a co-generation plant of 14 mega-watts (MW). BSPL is a part of the Satish Sugars Limited (SSL) Group. SSL was incorporated in 2000 and has crushing capacity of 10000 TCD, distillery of 60 kilo liters per day (KLPD) and a co-generation plant of 31 MW.

Analytical Approach

Acuité has consolidated the business and financial risk profiles of Belgaum Sugars Private Limited (BSPL) and Satish Sugars Limited (SSL) together referred to as the 'SSL Group' (SSLG) to arrive at the rating. The consolidation is in view of the similarities in the lines of business, operational and financial synergies and common management. Further, BSPL is a wholly owned subsidiary of SSL. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The parent company was incorporated in 2000 and hence, has a long track record of two decades. Further, the promoters have gained good insight about the industry over the years and have developed healthy customer and suppliers relations.

- **Favourable location**

The manufacturing plant is located at Hudali district in Belagavi (Karnataka) in close proximity to regions that cultivate sugarcane. The group together has total installed crushing capacity of 13500 TCD, distillery of 60 kilo liters per day (KLPD) and a co-generation plant of 45 MW on a build-own-operate-transfer (BOOT) basis.

Weaknesses

- **Working capital intensive nature of operations**

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 385 days in FY2018 and which has increased from 135 days in FY2017. The high GCA days are on account of high inventory holding period of 389 days in FY2018 as against 66 days in FY2017. There was a cap at selling inventory by the government and hence the high amount of inventory.

- **Cyclical nature associated with sugar industry**

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.

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

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 a fluctuation in FRP (Fair Remunerative Price) will have a bearing on the overall revenue and profitability.

Liquidity Position

SSL group has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.32.34 to 40.68 crore during the last three years through 2016-18, while its maturing debt obligations were in the range of Rs.34.96 to 55.59 crore over the same period. The cash accruals of the group are estimated to remain around similar range during 2019-21 while its repayment obligation are estimated to be around Rs. 33.15 to 37.58 Crore. The group's operations are highly working capital intensive as marked by gross current asset (GCA) days of 385 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the group remains fully utilized during the last 6 months period ended December 2018. The group maintains unencumbered cash and bank balances of Rs.17.04 crore as on March 31, 2018. The current ratio of the group stand low at 0.78 times as on March 31, 2018. The group is not likely to incur capex over the medium. Acuite believes that the liquidity of the group is likely to remain stretched over the medium term on account of low cash accrual and major repayments over the medium term.

Outlook: Stable

Acuité believes SSLG will maintain 'Stable' business risk profile in the medium term on the back of established operations and long standing experience of the promoters in the business. The outlook may be revised to 'Positive' in case of improvement in working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its financial risk profile due to higher than expected debt funded capex plan.

About the group

SSLG includes two companies i.e. Satish Sugars Limited and Belgaum Sugars Private Limited. Both the companies are engaged in manufacturing and processing of sugar and its by-products. It is a Belgaum (Karnataka) based group promoted by Mr. Satish Laxmanrao Jarkiholi and Mr. Vithal Rudrappa Parasannavar.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	394.40	587.03	529.14
EBITDA	Rs. Cr.	80.66	71.77	76.26
PAT	Rs. Cr.	13.44	23.88	26.35
EBITDA Margin	(%)	20.45	12.23	14.41
PAT Margin	(%)	3.41	4.07	4.98
ROCE	(%)	11.41	13.35	27.27
Total Debt/Tangible Net Worth	Times	1.74	1.73	1.73
PBDIT/Interest	Times	1.83	2.34	2.64
Total Debt/PBDIT	Times	4.40	4.08	3.78
Gross Current Assets (Days)	Days	385	135	220

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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	8.00	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	39.31	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	19.86	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	34.92	ACUITE BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB / Stable
Mortgage Loan Facility	Not Applicable	Not Applicable	Not Applicable	3.80	ACUITE BB / Stable

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About Acuité Ratings & Research:

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