

Press Release

Belgaum Sugars Private Limited

April 30, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 246.37 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating of '**ACUITE BB**' (**read as ACUITE Double B**) to '**ACUITE BB+**' (**read as ACUITE Double B plus**) on the Rs.246.37 Cr bank facilities of Belgaum Sugars Private Limited (BSPL). The outlook is '**Stable**'.

Reason for revision in rating

The upgrade is on account of improvement in the operating performance of BSPL and positive developments in its business risk profile marked by improving industry trends like rise in sugar prices and industry friendly government initiatives to boost sugar exports.

The rating draws strength from the experienced management, long track record of operations, moderate scale of operations and modest financial risk profile. These strengths are partially offset by working capital intensive nature of operations of the Group and cyclical nature associated with sugar industry. Going forward, Satish Sugar Limited Group's (SSLG) ability to improve its scale of operations without any deterioration in its profitability and working capital cycle will be key monitorable.

About the Company

BSPL is a part of the Satish Sugar Limited Group (SSLG) based at Karnataka, and was incorporated in 2007 by Mr. Vithal Rudrappa Parasannavar and Mr. Satish Laxmanrao Jarkiholi. The commercial operations of the company commenced in November, 2016. BSPL is engaged in the production of sugar with the installed capacity of 3500 tonnes crushed per day (TCD) and power cogeneration with capacity of 14 MW.

BSPL is a wholly owned subsidiary of Satish Sugars Limited (SSL). 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

- Experienced management and long track record of operations**

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. Mr. Pradeepkumar, the CEO and Mr. Siddharth who is the managing director of the group have amassed over a decade in the Sugar production industry.

Acuité believes that the Group will continue to derive benefit from its experienced management and long track record of operations over the medium term.

- Moderate scale of operations**

SSLG's operating income improved to Rs.636.08 Cr in FY2020 as against RS.613.62 Cr in FY2019. In the 10MFY21 period, the operating income generated by the Group stood at Rs.567.32 Cr. With higher number of cane

crushing days in FY2021 and industry friendly government initiatives to boost sugar exports the operating income of the Group is expected to remain above Rs. 700 Cr over the medium term. The operating margin stood at 15.80 percent in FY2020 as against 16.24 percent in FY2019. During the 10MFY21 period, the operating margin stood at 16.40 percent.

Acuite expects the scale of operations and profitability of the Group to improve over the medium term.

• Moderate financial risk profile

SSLG's financial risk profile is moderate marked by modest debt protection metrics and moderate net-worth.

SSLG's net-worth stood at Rs.246.72 Cr as on March 31, 2020 against Rs.229.84 Cr as on March 31, 2019. The improvement was on account of accretion of profits to reserves. The overall gearing of the Group stood 2.35 times as on March 31, 2020 as against 2.06 times as on March 31, 2019. Total outside liabilities to tangible net worth stood low 3.15 times as on March 31, 2020 as against 3.47 times as on March 31, 2019.

The total debt of Rs.579.37 Cr as on March 31, 2020 included term loans of Rs.235.08 Cr and working capital borrowings of Rs.343.20 Cr. The interest coverage ratio and DSCR of the group stood at 1.64 times and 0.86 times as on March 31, 2020 as against 1.92 times and 0.88 times as on March 31, 2019.

Acuité expects SSLG's financial risk profile to remain moderate in the absence of any major debt laden capex planned over the medium term and steady net cash accruals.

Weaknesses

• Working capital intensive nature of operations

SSLG's operations are working capital intensive in nature as reflected by its Gross Current Asset days of around 305 days as on March, 31 2020 as against 310 days as on March 31, 2019. The inventory days stood at 320 days as on March 31, 2020 as against 310 days as on March 31, 2019. The inventory days remain high due to the seasonal nature of the sugar industry and stock holding regulation laid by government authorities on sugar mills. The Debtor days stood at 33 days as on March 31, 2020 as against 29 days as on March 31, 2019. Further, the creditor days stood at 37 days as on March 31, 2020 as against 110 days as on March 31, 2019.

Acuité believes SSLG's ability to manage its working capital cycle over the medium term will be a key monitorable.

• Cyclicality associated with sugar industry

The group is engaged in sugar industry which is dependent on sugarcane production which is highly dependent on monsoon and realizations in alternative crops such as rice and wheat, which may prompt farmers to switch to sowing other crops. The particular sector is also marked by the presence of several mid to big size players which led to intense competition from the other players in the sectors.

Liquidity Position: Stretched

SSLG has a stretched liquidity position marked by low net cash accruals to its maturing debt obligations. The Group generated net cash accruals of Rs.36.13 Cr and Rs.41.44 Cr in FY2020 and FY2019 respectively while its debt obligation to pay during the same period stood at Rs.52.79 Cr and Rs.55.69 Cr respectively. The gap was funded by way of infusion of additional funds raised from various financing sources. The cash accruals of the Group are expected to remain in the range of Rs.39-45 Cr over the medium term, while its repayments are estimated to be in the range of Rs.44-71 Cr for the same period. The gross current asset (GCA) days for the Group were around 305 days estimated as on March 31, 2020 as against 310 days as on March 31, 2019. The unencumbered cash and bank balance was Rs. 2.43 Cr as on March 31, 2020. The current ratio was 0.95 times as on March 31, 2020. Acuité believes that the liquidity of SSLG is likely to remain stretched over the medium term on account of low cash accruals against debt repayments and working capital intensive nature of operations.

Material Covenants

None

Rating Sensitivities

- Lower than expected operating performance
- Deterioration in working capital cycle

Rating Outlook: Stable

Acuité believes that SSLG will maintain a stable outlook over medium term on account of experienced management, long track record of operations, moderate scale of operations and modest financial risk profile. The outlook may be revised to 'Positive' in case the company achieves higher than expected improvement in its scale of operations and profitability while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case of substantial reduction in its scale of operations, sharp decline in its operating margins and further stretch in its working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	636.08	613.62
PAT	Rs. Cr.	16.88	22.39
PAT Margin	(%)	2.65	3.65
Total Debt/Tangible Net Worth	Times	2.35	2.06
PBDIT/Interest	Times	1.64	1.92

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- 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 (Upto last three years)

Date	Name of the Instrument/Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
30-Jan-2020	Term Loan	Long Term	35.17	ACUITE BB/Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	14.37	ACUITE BB/Stable (Reaffirmed)
	Term Loans	Long Term	45.35	ACUITE BB/Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB/Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	28.00	ACUITE BB/Stable (Reaffirmed)
	Cash credit	Long Term	67.48	ACUITE BB/Stable (Reaffirmed)
20-Jan-2020	Term Loan	Long Term	35.17	ACUITE BB/Stable (Reaffirmed)

	Cash Credit	Long Term	8.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	14.37	ACUITE BB/Stable (Reaffirmed)
	Term Loans	Long Term	45.35	ACUITE BB/Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB/Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	28.00	ACUITE BB/Stable (Assigned)
	Cash credit	Long Term	22.00	ACUITE BB/Stable (Assigned)
01-Feb-2019	Cash Credit	Long Term	8.00	ACUITE BB/Stable (Assigned)
	Term Loans	Long Term	39.31	ACUITE BB/Stable (Assigned)
	Term Loans	Long Term	19.86	ACUITE BB/Stable (Assigned)
	Term Loans	Long Term	34.92	ACUITE BB/Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BB/Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BB/Stable (Assigned)
	Mortgage Loan Facility	Long Term	3.80	ACUITE BB/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	December, 2016	Not Applicable	September, 2022	35.17	ACUITE BB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+/Stable (Upgraded)
Term Loan	October, 2018	Not Applicable	September, 2022	14.37	ACUITE BB+/Stable (Upgraded)
Term Loan	May, 2016	Not Applicable	March, 2022	45.35	ACUITE BB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE BB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB+/Stable (Upgraded)
Term Loan	June, 2018	Not Applicable	March, 2023	3.00	ACUITE BB+/Stable (Upgraded)
Term Loan	April, 2019	Not Applicable	March, 2022	28.00	ACUITE BB+/Stable (Upgraded)
Cash credit	Not Applicable	Not Applicable	Not Applicable	67.48	ACUITE BB+/Stable (Upgraded)

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About Acuité Ratings & Research:

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