Press Release

Belgaum Sugars Private Limited

July 19, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	246.37	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive	-
Total Outstanding Quantum (Rs. Cr)	246.37	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long-term rating of **'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 **'positive'.**

The outlook revision factors in the expected improvement in the group's performance, supported by diversity in the company's revenues. Moreover, being forward-integrated into co- generation and distillery operations, the company benefits from access to alternative revenue streams, which act as a cushion against the cyclicality of the sugar business. The group's revenue grew to Rs.1052.90 Cr in FY22 after growing by 29 percent over FY21 and by 28 percent over FY20. Further, the revenue diversification has increased in FY22 with distillery and co-generation contributing to ~20% of the total revenues. The Group is in an advanced stage of setting up a new distillery of 110 kilo litres per day (KLPD), which is expected to be operational by Q3FY23 and would strengthen its operational profile further and improve the revenue diversification. The inventory levels are expected to moderate going forward with the new distillery getting commercialised and higher sucrose getting diverted towards ethanol. The group's revenues in FY23 to grow by 5-10% over the previous year, backed by higher revenues from the distillery division on account of enhanced capacities and improved realisations, despite the likely reduction in sugar volumes over the medium term. The groups' overall operating revenues and profitability and cash accruals are expected to benefit from the sugar realisations along with better distillery performance, going forward. Sustenance of the revenue growth and operating margin will remain key monitorable.

The ratings reaffirmed continue to reflect the established position of Satish group in the sugar and distillery business and its healthy operating efficiency, favourable policy framework. These strengths are partially offset by the below-average financial performance, large working capital requirement and susceptibility to regulatory changes and fluctuations in sugar prices.

About Company

Belgaum Sugars Private Limited (BSPL), was incorporated in 2007 and is a wholly owned subsidiary of Satish Sugar Limited (SSL) based in Karnataka. The commercial operations of the company commenced in November, 2016. BSPL is engaged in the production of sugar and its sugar plant located in Belagavi district, in the state of Karnataka with the installed capacity of 3500 tonnes crushed per day (TCD) and power cogeneration with capacity of 14 MW.

Incorporated in 2000, Satish Sugar Limited (SSL) was engaged in the production of sugar and its sugar plant located in Belagavi district, in the state of Karnataka with the installed capacity of and has crushing capacity of 10000 TCD, distillery of 90 kilo liters per day (KLPD) and a co- generation plant of 31 MW.

Analytical Approach

Rationale for Consolidation or Parent / Group / Govt. Support

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

Long operating t rack record and established presence in the sugar business and distillery industry

The parent company Satish Sugars Limited was incorporated in 2000 promoted by Mr. Pradeep Kumar Manohar Indi (Chairman& chief financial officer (CFO) and Ms. Priyanka Satish Jarkiholi (Managing Director). The senior management team is ably supported by a strong line of mid-level managers. The promoters have a long-standing experience in the sugar industry and wide acceptance among local farmers, which facilitates adequate and timely cane procurement, ensuring an adequate crushing period. Established relationships with farmers in its command area, along with various support initiatives and timely payments, ensures good quality supply. Acuité believes that the company will continue to benefit from its promoters excellence in the sugar industry and diversified revenue streams, their strong understanding of market dynamics, healthy relations with customers and suppliers, positive domestic demand outlook will continue to support the business growth over the medium term.

Integrated Nature of Operations and distillery Expansion to reduce reliance on sugar

The Satish Sugar group has an integrated mix of production capacities, comprising a cane crushing capacity of 13,500 tonnes per day, a molasses-based distillery capacity of 90 kilo litres per day (klpd) and a cogeneration capacity of 45MW as of March 2022. The Group's distillery as well as co-generation capacity is adequate to utilize all the molasses produced through the crushing operations thereby resulting in fully integrated facilities. The company's cane availability has improved in the past four years due to the higher use of a high-yielding variety and cane developmental activities, which is reflected in crushing levels rising to 2.30 million tonnes in FY22 (FY21: 1.95 million tonnes). The group had completed its distillery expansion in April 2021, increasing its ethanol capacity to 90 kilo litres per day (klpd) (from 60 kilo litres per day (klpd)). Besides, it has forayed into the production of ethanol directly from cane-juice, which will contain sugar production in addition to increasing the segment's contribution to the total profit. The company is setting up an 110klpd grain-based distillery by FY23 which will further increase its ethanol production. The integrated operation provides alternative revenues and cushions the profitability against the cyclicality in the sugar business. In FY22, the sugar business accounted for around 75% of the company's revenue, followed by distillery at ~15% (increased from 8% in FY21) and the balance from the co-generation business (~5%) and others. Acuité believes that the group the expansion plans of the distillery would increase the contribution of the segment to revenues going forward and moderate the seasonality associated with the sugar business, as distilleries operate for around 325-330 days in a year. Acuité believes that group's operating performance will continue to be supported by its improved efficiencies and fully integrated nature of operations.

Increase in revenue and stable EBITDA Margins

The group's revenue grew to Rs.1052.90 Cr in FY22 after growing by 29 percent over FY21 and by 28 percent over FY20 (FY21: Rs.815.15 Cr and FY20: 635.23 Cr),led by the strong performance in the distillery division (126% yoy) as the group has increased producing ethanol through B-heavy molasses. The Group had undertaken a capex of Rs.85 Cr for grain-based distillery unit to enhance the distillery capacity to 200 kilolitres per day (klpd) . Acuité believes that the company is likely to continuously benefit from the government's focus to incentivise ethanol production and from the production of improved quality ethanol (from b-heavy molasses) which realise better prices. The EBITDA margins were average at 12.50% in FY22 (FY21: 12.72%) with a return on capital employed of 12.48% (10.27%). Acuité expects the revenue and EBITDA margins expected to improve marginally in FY23, due to the increased ethanol prices and increase in revenue contribution from higher-margin distillery division.

Favourable policy framework

The Government of India (GoI) has been supporting the sugar industry through various measures such as introduction of MSP to addressed the key issue of fixed raw material price and market-linked finished product price, making spreads less volatile to sugar cycles, interest subvention loans for ethanol capacity creation and expansion, soft loans for clearing cane dues, export subsidy and creation of sugar buffer stock to address the demand-supply situation in the domestic market. While an improvement in sugarcane yields has led to India's sugar production increasing structurally over the past few years, demand growth remained modest at 1%-2% annually, exceeding the consumption and resulting in high inventory levels. To manage the inventory levels, GoI preponed the ethanol-blending programme timeline to 2025 from 2030 for 20% mandatory blending of ethanol with petrol and introduced additional excise duty on unblended petrol, effective from October 1, 2022. Given the current blending rate of 8%-8.5%, the target presents a huge demand potential. Furthermore, the segment's profitability is likely to increase in FY23, backed by the increase in prices announced by the petroleum ministry. Over the years, the GoI has supported the blending programme by fixing the prices of ethanol manufactured through varied sugarcane-based feedstocks at the beginning of each ethanol supply year and has also announced annual hikes. Favourable pricing, coupled with a shorter credit period for ethanol supplies, has supported the profits and cash accruals of various medium to large-sized sugar mills, besides reducing their working capital intensity to some extent. Acuité believes that any change in the regulatory stance and continuation of government support to sugar sector (including distilleries and ethanol pricing) are key monitorables.

Weaknesses

Below-average financial risk profile

The group's financial risk profile is below-average, marked by a moderate networth, leveraged capital structure and below average debt protection metrics. The Group's networth is moderate at around Rs.296.72 Cr as on March 31, 2022 (provisional) as against Rs. 259.90 Cr as on 31 March, 2021. The company has followed an aggressive financial policy in the past, the same is reflected through its gearing and total outside liabilities to tangible networth (TOL/TNW) levels stood at 2.09 times and 3.23 times as on 31 March, 2022 (provisional) respectively vis-à-vis 2.26 times and 3.24 times as on 31 March, 2021. Its debt/EBIDTA stood high at 4.75 times as on March 31, 2022 (provisional) against 5.58 times as on March 31, 202. The debt protection metrics are below; marked by interest coverage ratio, Debt service coverage ratio (DSCR) and net cash accruals to total debt (NCA/TD) at 2.00 times, 0.96 times and 0.09 times, respectively, in FY22 as against at 1.51 times, 0.94 times and 0.06 times, respectively, in FY21.The group incurred capex of Rs.102 Cr over the last three years to expand its scale of operations. Acuité believes that the group's financial risk profile will remain below average over the medium term, considering the large debt-funded capex towards the distillery about ~Rs.85 Cr in FY23, the repayment obligations will increase from FY23, the cash accruals and DSCR is expected to remain weak over the medium term.

Working-capital-intensive-nature of operations
Since sugar is an agro-based commodity (with sugarcane crushed mainly during November to April), sugarcane has to be crushed within a day or two of its arrival in the mills. Hence, the sugar inventory is piled up during the crushing season and gradually released till the commencement of the next crushing season, resulting into high inventory carrying cost and requirement of high working capital. Gradually, the inventory declines and reaches a minimum by the end of September or October. In The production of sugarcane is on an uptrend for two years and then declines over the next two years, before trending up again. It is a typical cycle which is affected more by cane and sugar supply than by sugar demand. Further, depending on the variety of the cane, the sugar cane takes around 12-18 months to be harvested from the time it is sown. The crushing of cane typically begins from the month of November and goes up to April while sugar sales happen throughout the year. Various government measures to control supply of sugar amidst record production such as maintenance and increase of buffer stock, monthly sales quota also resulted the high inventory. However the inventory levels are consistently declined due over the past three years from 332 days in FY20 to 204 days in FY22 (FY21: 267 days) due to the distillery would enable group to reduce its sugar inventory levels as it plans to manufacture the entire ethanol from B-heavy molasses. Hence its gross current asset (GCA) days are consistently declined to 250 days in FY22 (FY21: 281 days) from 311 days in FY20. The debtor collection period of the improved to 23 days in FY22 as compared to 75 days in FY21. Further the creditor payback period stood average at 70 days over the past 3 years ending FY22. Acuité believes, as crushing begins from November-December and lasts till April, the company has to maintain a huge inventory to meet demand throughout the year.

Susceptibility of operational performance to downturn in the sugar business
Sugar prices are largely market driven and dependent on production for the sugar season and inventory levels prevailing in the country. Hence, higher production, which increases inventory levels, may lead to a steep fall in prices and impact profitability, as the cost of production is relatively sticky in nature. Monsoons too have a bearing on cane production and recovery rate of cane, impacting overall sugar production in the country. The downfall in sugar prices is cushioned by the MSP declared by the GoI (Rs 31/kg at present). Additionally, the government has taken measures to encourage increased diversion of sugarcane to ethanol instead of sugar, and promote exports so as to address the excess inventory situation and arrest the fall in prices. Also, the domestic players remain susceptible to volatility in sugar prices, which depend on domestic and international production.

ESG Factors Relevant for Rating
Not Applicable

Rating Sensitivities

- Substantial increase in cash accrual driven by improvement in business diversity and improvement in its revenues and profitability
- Overall improvement in its financial risk profile
- Any sharp decline in sugar prices, cane crushing volumes, recovery rate or an increase in cane costs
- Sharp drop in sugar and distillery realisations impacting profitability, including any movement driven by changes in government regulations
- Large debt-funded capex

Material Covenants
None

Liquidity Position: Stretched

Group has stretched liquidity marked by stretched net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs.32 to 57 Cr during the last three years through 2020-22, while it's maturing debt obligations were in the range of Rs.39 to 80 Cr over the same period. The cash accruals of the group are estimated to remain around Rs.65-85 Cr during 2023-25 while its repayment obligation are estimated to be around Rs. 60-65 Cr during the same period. The group's operations are working capital intensive as marked by gross current asset (GCA) days of 250 in FY 2022. This has led to high reliance on its working capital borrowings, the working capital limit of the group remains utilized at 55 percent during the last 12 months period ended March 2022. The group maintains unencumbered cash and bank balances of Rs.20.35 Cr as on March 31, 2022. The current ratio of the group is weak and stood below unity over the last 3 years and as on March 31, 2022 current ratio stood at 0.90 times. Acuite believes that the liquidity of the group is likely to remain stretched over the medium term on account of low cash accrual to its repayment obligations.

Outlook: Positive

Acuite believes that, over the medium term, the Group will benefit from the capex towards setting up a new distillery units and expanded capacity in FY22, established player in the Sugar industry and the group's recent customer additions. Furthermore, the Group's capital structure is expected to improve steadily over the medium term, driven by better cash flows from operations, and prudent capex spending. The ratings may be upgraded in case of higher-than-expected cash accruals, most likely driven by continued healthy growth of revenue and profitability, or in case of a significant reduction in the Group's debt levels, leading to sustained improvement in its capital structure and debt protection metrics. Conversely, the outlook may be revised to 'Stable' if the Group's revenue growth and profitability weaken significantly, impacting its cash accruals, or if it undertakes larger-than-expected debt-funded capex or further stretch in working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	1052.90	815.15
PAT	Rs. Cr.	36.82	13.25
PAT Margin	(%)	3.50	1.62
Total Debt/Tangible Net Worth	Times	2.09	2.26
PBDIT/Interest	Times	2.00	1.51

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

None

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm

Note on Complexity Levels of the Rated Instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Apr 2021	Cash Credit	Long Term	30.00	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Term Loan	Long Term	45.35	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Cash Credit	Long Term	8.00	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Cash Credit	Long Term	67.48	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Term Loan	Long Term	3.00	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Cash Credit	Long Term	15.00	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Term Loan	Long Term	14.37	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Term Loan	Long Term	35.17	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
	Term Loan	Long Term	28.00	ACUITE BB+ | Stable (Upgraded from ACUITE BB | Stable)
30 Jan 2020	Term Loan	Long Term	35.17	ACUITE BB | Stable (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	67.48	ACUITE BB | Stable (Reaffirmed)
	Term Loan	Long Term	28.00	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB | Stable (Reaffirmed)
	Term Loan	Long Term	45.35	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	30.00	ACUITE BB | Stable (Reaffirmed)
	Term Loan	Long Term	14.37	ACUITE BB | Stable (Reaffirmed)
20 Jan 2020	Term Loan	Long Term	14.37	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	22.00	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	45.35	ACUITE BB | Stable (Reaffirmed)
	Term Loan	Long Term	35.17	ACUITE BB | Stable (Reaffirmed)
	Term Loan	Long Term	28.00	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB | Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BB | Stable (Reaffirmed)
		Long		

	Cash Credit	Term	30.00	ACUITE BB | Stable (Reaffirmed)
01 Feb 2019	Cash Credit	Long Term	15.00	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	3.80	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	19.86	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	34.92	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	39.31	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	30.00	ACUITE BB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
SVC Co-Op Bank Limited	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
The Belagavi District Central Co-Operative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	6.39	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.54	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
The Bagalkot District Central Co-Operative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	15.55	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
The Belagavi District Central Co-Operative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	5.05	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
The Belagavi District Central Co-Operative Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	9.38	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
The Belagavi District Central Co-Operative	Not Applicable	Term Loan	Not available	Not available	Not available	1.29	ACUITE BB+ | Positive | Reaffirmed | Stable

Bank Ltd							to Positive
Gokak Credit Souhard Sahakari Niyamit	Not Applicable	Term Loan	Not available	Not available	Not available	28.00	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive
Indian Renewable Energy Development Agency Ltd. (IREDA)	Not Applicable	Term Loan	Not available	Not available	Not available	28.17	ACUITE BB+ | Positive | Reaffirmed | Stable to Positive

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.