

Press Release

The Seksaria Biswan Sugar Factory Limited

June 05, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 450.00 Cr.
Long Term Rating	ACUITE A/ Outlook: Stable
Short Term Rating	ACUITE A1

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE A**' (**read as ACUITE A plus**) and short-term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs. 450.00 crore bank facilities of THE SEKSARIA BISWAN SUGAR FACTORY LIMITED (TSBSFL). The outlook is '**Stable**'.

TSBSFL, was incorporated in 1939. The company is promoted by Kailashchandra Seksaria and family. The company runs a sugar factory having a capacity of 8500 TCD. Further, the company has a Distillery with installed capacity of 65 KLPD producing Industrial Alcohol and Rectified Spirit and a co-generation power plant with capacity of 32 MW. The plant is located in Biswan (Uttar Pradesh).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management along with integrated business model and diversified revenue stream**

The company has established presence since 1939 in sugar industry and has established track record of over eight decades. The company is promoted by Mr. Kailashchandra Seksaria and family. Mr. Seksaria, has an experience of more than four decades in the aforementioned industry. The promoters have gained good insight about the industry over the years and have developed healthy customer and suppliers relations.

The company is forward integrated into cogeneration and distillery operations that de-risk the core sugar business of the company to some extent. TSBSFL operates 8,500 tonne crushed per day (TCD) of sugar capacities in UP, which are forward integrated into power and alcohol business with bagasse-based cogeneration power plant with capacity of 32 megawatt (MW) and distillery with capacity of 65 kilo litre per day (KLPD) in FY19. TSBSFL has a power purchase agreement with Uttar Pradesh Power Corporation Limited to sell power at Rs. 4.30 /kWh in FY20, which was revised downwards from Rs.6.11 /kWh, and tenders with oil marketing companies to supply ethanol at government-regulated rates. Further, the company is likely to benefit from the government's focus to incentivise ethanol production. During FY19, the distillery and power division together contributed around 19 per cent (PY: 9 per cent) of the gross revenue from operations and balance 81 per cent (PY: 91 per cent) was from the sugar division. The operating margin stood moderate at 8.73 per cent in FY19 as compared to 9.86 per cent in FY18.

The integrated nature of operations result in economies of scale which is critical for profitability.

- **Healthy cane crushing & improved recovery rates**

The company has reported a substantial increase in cane crushing to an all-time high of 16.97 lakh Ton in FY19 from 13.21 lakh Ton in FY18. The healthy crushing levels support the forward integrated operations. Furthermore, as a result of varietal change in the cane, there has been consistent improvement in the recovery rates from 11.42% in FY18 to 11.55% in FY19 in the sugar segment of the company which has also led to enhanced production.

- **Increased thrust on ethanol production**

The government is promoting ethanol which will help it to save on the import bill and also helps sugar mills to reduce their dependence on sugar enabling them to clear the cane arrears. To promote ethanol the government has provided interest subvention, increased the price of ethanol, and fixed a separate price for B-heavy molasses based ethanol and ethanol from sugarcane juice etc. With the aggressive government approach to increase the ethanol blending Programme to 10% by 2020 and 20% by 2030, sugar companies are witnessing a massive expansion of distillery capacities. Currently, sugar companies are able to supply only 70% of tenders floated by oil marketing companies. The company is positioned to benefit from this as it is setting up a 30 TPH Slop Fired Boiler. It will increase working days of Distillery from existing 220 days to 330 days. It will result into increasing Ethanol production.

Weaknesses

- **Working capital intensive operations**

Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. Though the company has de-risked their model by forward integration to some extent, the sugar segment may affect the overall profitability and fund requirement. The average working capital utilization for the six months period ended February 2020 stood at approximately 69%.

- **Cyclical and regulated nature of sugar industry**

The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

Liquidity Position - Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.23.98 – 85.89 crore during the three years through 2017-19, while its maturing debt obligations were in the range of Rs.13.35 -32.21 crore over the same period. The cash accruals of the company are estimated to remain around Rs.45.00~47.00 crore during 2019 -21. The cash credit limit in the company remains utilised at ~69 percent during the last 6 months period ended February 2020. The company maintains unencumbered cash and bank balances of Rs.10.23 crore as on March 31, 2019. Further, the company has unencumbered fixed deposits of Rs. 26.98 crore as on 31 March, 2019. The current ratio of the company stood healthy at 2.43 times as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual to meet its repayment obligation over the medium term.

Rating Sensitivities

- Ability to enhance its profitability and improve its capital structure amidst the highly regulated industry environment
- Deterioration in working capital management leading to stretched liquidity

Material Covenants

No major covenants apart from financial covenants.

Outlook: Stable

Acuité believes that TSBSFL will maintain 'Stable' outlook over 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 revenues, profitability and capital structure while increasing the scale of operations. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial profile and stretch in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	579.48	615.48
PAT	Rs. Cr.	(2.45)	23.80
PAT Margin	(%)	(0.42)	3.87
Total Debt/Tangible Net Worth	Times	1.24	0.95
PBDIT/Interest	Times	3.29	10.90

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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)

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	176.00	ACUITE A/ Stable
Term loans	03-Jul-19	Not Applicable	01-Jun-24	26.27	ACUITE A/ Stable
Term loans	09-Apr-2019	Not Applicable	31-Mar-24	58.09	ACUITE A/ Stable
Term loans	28-Nov-19	Not Applicable	28-Aug-26	164.64	ACUITE A/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1

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About Acuité Ratings & Research:

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