

Press Release

The Seksaria Biswan Sugar Factory Limited

August 05, 2021



Rating Upgraded and Withdrawn

Total Bank Facilities Rated*	Rs. 325.00 Cr. (Reduced from Rs.450.00 Cr.)
Long Term Rating	ACUITE A+/ Outlook: Stable (Upgraded and Withdrawn)
Short Term Rating	ACUITE A1+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE A+**' (read as **ACUITE A plus**) from '**ACUITE A**' (read as **ACUITE A**) and short-term rating to '**ACUITE A1+**' (read as **ACUITE A one plus**) from '**ACUITE A1**' (read as **ACUITE A one**) on the Rs.325.00 crore bank facilities of The Seksaria Biswan Sugar Factory Limited (TSBSFL). The outlook is '**Stable**'.

Also, Acuité has upgraded and withdrawn the long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs.125.00 crore bank facilities of TSBSFL.

About the Company

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 cogeneration power plant with capacity of 32 MW. The plant is located in Biswan (Uttar Pradesh).

Rationale for Rating Upgrade

The rating upgrade reflects a substantial improvement in the overall business and financial risk profile of the company. The improvement in the business risk profile is reflected through the increased scale of operation in FY2021 as compared to the preceding years. The growth in revenue is expected to be sustained in medium term backed by increase in revenues from distillery segment. The operating margins of the company improved to 14.74 percent in FY2021 (Provisional) from 9.71 per cent in FY2020. The improvement of operating margin was on account of higher contribution from sugar segment as well as continued healthy profitability in the distillery segment.

The rating is further strengthened by healthy financial risk profile of the company marked by low debt, strong debt protection metrics and healthy liquidity. The company has foreclosed some term loans which has resulted in overall reduction in debt levels of the company. Healthy operating performance and reduction in debt has resulted in healthy debt protection metrics. The interest coverage ratio stood at 6.86 times in FY2021 (Provisional) as compared to 3.43 times in the previous year. The liquidity is healthy reflected by average bank limit utilisation of ~27 per cent in the last six months ended April, 2021. Further, the net cash accruals stood at Rs.73.21 crore against debt obligation of Rs. 33.72 crore in FY2021 (Provisional). The capital structure has improved over the years due to healthy cash accruals and reduction in debt levels.

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 FY21. The company has reported cane crushing of 12.87 lakh Ton in FY21 as compared to 14.33 lakh Ton in FY20. 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 11.55% in FY19 to 11.66% in FY20 in the sugar segment of the company which has also led to enhanced production. In FY21 the recovery rate was 10.99% after diverting B Heavy molasses for ethanol production.

TSBSFL has a power purchase agreement with Uttar Pradesh Power Corporation Limited to sell power at Rs. 4.33 /kWh in FY21, which was revised downwards from Rs.6.11 /kWh in FY19, 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 FY21, the distillery and power division together contributed around ~16 per cent of the gross revenue from operations and balance 84 per cent was from the sugar division. The operating margin stood healthy at 14.74 per cent in FY21 (Provisional) as compared to 9.71 per cent in FY20.

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

- **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 has completed setting up a 30 TPH Slop Fired Boiler. This has increased working days of Distillery from 220 days to 330 days. It will result into increasing Ethanol production from FY2022. Further, the company is planning to expand the Distillery capacity from 65 KLPD to 81 KLPD next year.

Weaknesses

- **Working capital intensive nature of 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 April 2021 stood at approximately 27%.

- **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.

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.

Liquidity Position – Strong

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.23.98 – 73.21 crore during the four years through 2018-21, while its maturing debt obligations were in the range of Rs.14.46 -38.96 crore over the same period. The cash credit limit in the company remains utilised at ~27 percent during the last 6 months period ended April 2021. The company maintains unencumbered cash and bank balances of Rs.3.45 crore as on March 31, 2021 (Prov). Further, the company has unencumbered fixed deposits of Rs. 18.89 crore as on 31 March, 2021 (Prov). The current ratio of the company stood healthy at 2.27 times as on March 31, 2021 (Prov). Acuite believes that the liquidity of the company is likely to remain healthy over the medium term on account of healthy cash accrual to meet its repayment obligation over the medium term.

Outlook: Stable

Acuite 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	662.09	561.96
PAT	Rs. Cr.	41.34	7.53
PAT Margin	(%)	6.24	1.34
Total Debt/Tangible Net Worth	Times	0.97	1.59
PBDIT/Interest	Times	6.86	3.43

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>
- 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 Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Jun-2020	Cash Credit	Long Term	176.00	ACUITE A/Stable (Assigned)
	Term Loan	Long Term	26.27	ACUITE A/Stable (Assigned)
	Term Loan	Long Term	58.09	ACUITE A/Stable (Assigned)
	Term Loan	Long Term	164.64	ACUITE A/Stable (Assigned)
	Bank guarantee	Short Term	25.00	ACUITE A1 (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	152.75 (Reduced from Rs.176.00 Cr.)	ACUITE A+/ Stable (Upgraded)
State Bank of India	Term Loan	03-Jul-2019	5.00%	01-Jun-2024	20.49 (Reduced from Rs.26.27 Cr)	ACUITE A+/ Stable (Upgraded)
State Bank of India	Term Loan	09-Apr-2019	9.50%	08-Jul-2020	58.09	ACUITE A+ (Upgraded & Withdrawn)
HDFC Bank	Term Loan	16-Aug-2018	7.45%	27-Aug-2026	126.76 (Reduced from Rs.164.64 Cr)	ACUITE A+/ Stable (Upgraded)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1+ (Upgraded)

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About Acuité Ratings & Research:

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