

Press Release

The Seksaria Biswan Sugar Factory Limited

November 02, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.00	-	ACUITE A1+ Reaffirmed
Bank Loan Ratings	300.00	ACUITE A+ Stable Reaffirmed	-
Bank Loan Ratings	62.00	ACUITE A+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	387.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) and short-term rating of '**ACUITE A1+**' (read as **ACUITE A one plus**) on the Rs.325.00 crore bank facilities of The Seksaria Biswan Sugar Factory Limited (TSBSFL). The outlook is 'stable'. Also, Acuite has assigned its long-term rating of '**ACUITE A+**' (read as **ACUITE A plus**) on the Rs.62.00 crore bank facilities of TSBSFL. The outlook remains 'Stable'.

Rationale for Reaffirmation

The rating reaffirmation reflects the sustenance of healthy financial risk profile marked by low gearing level, strong debt protection metrics and healthy liquidity position of the company. The rating also factors in the improvement in profitability margins from 14.94% in FY2021 to 19.59% in FY2022 (provisional). The improvement in margins is on account of healthy profitability in the distillery segment led by capacity expansion of the distillery process from 65KLPD to 81KLPD during the same year. However, the rating remains constrained on account of decline in revenues during FY2022 (provisional). Further, the rating is also constrained on account of working capital-intensive nature of operations which continues to remain a key concern in the sugar industry.

About the Company

TSBSFL, was incorporated in 1939. The company is promoted by Kailash Chandra 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 81 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).

Analytical Approach

Acuite 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. Kailash Chandra 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.

Furthermore, 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 a 8,500 tonne crushed per day (TCD) sugar plant in UP, which is forward integrated into power and alcohol business with bagasse-based cogeneration power plant with capacity of 32 megawatt (MW) and distillery with capacity of 81 kilo litre per day (KLPD) in FY2022.

Also, TSBSFL has a power purchase agreement with Uttar Pradesh Power Corporation Limited to sell power and tenders with oil marketing companies to supply ethanol at government-regulated rates. For the same, the company is likely to benefit from the government's focus to incentivize ethanol production going ahead. During FY2022, the sugar division contributed to ~70.75 percent of the total revenue, the distillery division contributed around ~20.94 per cent of the total revenue, power division contributed around ~6.97 percent of the total revenue and balance 1.34 per cent is from bio compost and pesticide. The revenue of the company decreased to Rs. 558.41 crore in FY2022 (provisional) as against Rs. 662.17 crore in FY2021.

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 program to 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. Accordingly, TSBSFL had improved the capacity of its distillery to 81KLPD in FY2022 and has further planned to expand the capacity of its distillery from 81KLPD to 166KLPD. The operating profit margin improved to 19.59 percent in FY2022 (provisional) as against 14.94 percent in FY2021 on account of increase in sales of ethanol.

Acuite believes that TSBSFL's ability to improve its profitability on account of the improved distillery capacity will be a key rating monitorable.

Healthy Financial Risk Profile

TSBSFL's financial risk profile is healthy with low gearing, healthy net worth, and comfortable coverage ratios. The net worth of the company stood at Rs.442.56 crore as on March 31, 2022 (provisional) as against Rs.252.96 crore as on March 31,2021. The gearing of the company stood below unit at 0.62 times as on March 31, 2022 (provisional) as against 1.00 times as on March 31,2021. The coverage ratios remain comfortable with interest coverage ratio of 10.07 times for FY2022 (provisional) as against 7.35 times for FY2021. The DSCR stood at 1.59 times for FY2022 as against 1.85 times for FY2021. The total debt outstanding of Rs.273.75 crore as on March 31, 2022 includes working capital borrowings of Rs.116.51 crore and term loan obligations of Rs.157.24 crore.

Acuite believes that the company's ability to improve its scale of operations with the help of the debt funded capital expenditure while maintaining its capital structure will remain a key rating monitorable.

Weaknesses

Working Capital Intensive Nature of Operations

The operations of the company are of working capital-intensive in nature, marked by high GCA days of 240 days in FY2022(provisional) as against 177 days in FY2021. The high GCA days are on account of high inventory days of 282 days in FY2022 (provisional) as against 180 days in FY2021. The sugar cane procurement is generally higher by March, 2022, hence, the inventory levels tend to be higher across the industry during financial year ends. The debtor days are low and stood at 12 days in FY2022 (provisional) as against 21 days in FY2021. The creditor days stood at 26 days in FY2022 (provisional) as against 34 days in FY2021. The average utilisation of working capital limits is around 10-15%.

Acuite believes that working capital operations may continue to remain intensive considering the nature of industry.

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

- Improvement in revenue while maintaining profitability margins amidst the highly regulated industry environment
- Deterioration in working capital management leading to stretched liquidity
- Timely execution of the debt funded capital expenditure while maintaining the capital structure

Material covenants

None

Liquidity Position

Adequate

The liquidity position of the company is adequate marked by adequate net cash accruals against its maturing debt obligations. The company generated a net cash accrual of Rs. 77.21 crore in FY2022 (provisional) against the maturing debt obligations of Rs. 44.38 crore. The company is expected to generate net cash accruals in the range of Rs.84 crore – Rs.100 crore and the matured debt obligations of Rs.60 crore. The current ratio stood at 3.03 times as on March 31, 2022 (provisional). 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	558.41	662.17
PAT	Rs. Cr.	44.55	45.28
PAT Margin	(%)	7.98	6.84
Total Debt/Tangible Net Worth	Times	0.91	1.00
PBDIT/Interest	Times	10.07	7.35

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
05 Aug 2021	Term Loan	Long Term	58.09	ACUITE A+ (Withdrawn)
	Cash Credit	Long Term	152.75	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Term Loan	Long Term	20.49	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Term Loan	Long Term	126.76	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
	Bank Guarantee	Short Term	25.00	ACUITE A1+ (Upgraded from ACUITE A1)
05 Jun 2020	Term Loan	Long Term	58.09	ACUITE A Stable (Assigned)
	Cash Credit	Long Term	176.00	ACUITE A Stable (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	26.27	ACUITE A Stable (Assigned)
	Term Loan	Long Term	164.64	ACUITE A Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A1+ Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	148.00	ACUITE A+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.75	ACUITE A+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	62.00	ACUITE A+ Stable Assigned
State Bank of India	Not Applicable	Term Loan	Jul 3 2019 12:00AM	5.00	Jun 1 2024 12:00AM	20.49	ACUITE A+ Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Aug 16 2018 12:00AM	7.45	Aug 27 2026 12:00AM	126.76	ACUITE A+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Vaishnavi Deshpande Analyst-Rating Operations Tel: 022-49294065 vaishnavi.deshpande@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.