Press Release
The Seksaria Biswan Sugar Factory Limited
January 30, 2024
Rating Downgraded and Partly Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	105.69	ACUITE A | Downgraded & Withdrawn	-
Bank Loan Ratings	256.31	ACUITE A | Stable | Downgraded	-
Bank Loan Ratings	25.00	-	ACUITE A1 | Downgraded
Total Outstanding Quantum (Rs. Cr)	281.31	-	-
Total Withdrawn Quantum (Rs. Cr)	105.69	-	-

Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE A' (read as ACUITE A)** from '**ACUITE A+ ' (read as ACUITE A plus)** and the short-term rating to '**ACUITE A1' (read as ACUITE A one)** from '**ACUITE A1+ ' (read as ACUITE A one plus)** on the Rs.281.31 crore bank facilities of The Seksaria Biswan Sugar Factory Limited (TSBSFL). The outlook is '**Stable'.**

Acuité has also partially withdrawn and downgraded the long-term rating to '**ACUITE A' (read as ACUITE A)** from '**ACUITE A+ ' (read as ACUITE A plus)** on the Rs.105.69 crore bank facilities of The Seksaria Biswan Sugar Factory Limited (TSBSFL). The partial rating withdrawal is on account of partial repayment of the term loans and the request received from the rated entity.
The rating has been withdrawn on as per Acuite's policy of withdrawal of ratings as applicable to the respective instrument/facility.

Rationale for rating downgrade

The rating downgrade reflects significant deterioration in the profitability of the company and moderation in debt protection metrics in FY2023. The operating profit margins declined to 8.29% and net profit margin to 2.09% in FY2023 against 19.59% and 7.98% in FY2022. The deterioration in profitability is on account of higher input costs, changes in the inventory value, no exports during the year which is a high margin contributing segment for the company. However, the operating income grew to Rs.661 Cr in FY2023 against Rs.558 Cr in FY2022.

The debt protection indicators of DSCR remained below unity in FY2023 and Debt-EBITDA stood high at 4.19 times in FY2023. The rating is further constrained on account of moderately intensive working capital operations marked by GCA days of 163 days in FY2023.

However, the rating derives strength from the long-standing experience of TSBSFL's management in the sugar industry, diversified revenue streams and healthy financial risk profile marked by low gearing levels and healthy tangible net worth.

Acuite believes, that the company's ability to sustain steady growth in operating income, improve profitability margins while avoiding any significant stretch in working capital cycle and improving key debt coverage indicators will remain key monitorable over the near to medium term.

About the Company

TSBSFL incorporated in 1939, is promoted by Mr. Kailash Chandra Seksaria and family. The company runs a sugar factory having a capacity of 8500 TCD, a distillery unit with an installed capacity of 81 KLPD producing industrial alcohol and rectified spirit and a co-generation power plant with a capacity of 32 MW. The plant is located in Biswan (Uttar Pradesh).

Unsupported Rating

Not Applicable

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

TSBSFL has an established track record of over eight decades in sugar industry. The company is promoted by Mr. Kailash Chandra Seksaria and family. Mr. Seksaria has an experience of over four decades in the aforementioned industry. The promoters have gained good insight about the industry over the years and have developed healthy relationship with its customer and suppliers.

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).

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.

Acuité believes that the company will continue to benefit from its experienced management and established track record of operations.

Increased thrust on ethanol production

The government is promoting ethanol which will help them to save on the import bill and also help 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 81KPLD to 166KPLD by the end of FY2024.

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

Financial risk profile of TSBSFL is healthy marked by healthy net worth, low gearing and moderate debt protection metrics. The tangible net-worth of the company stood improved at Rs.455 Cr as on 31 March, 2023 as against Rs.442 Cr as on 31 March, 2022 due to accretion of profits to reserves. The gearing (debt-equity) stood improved at 0.57 times as on 31 March, 2023 as against 0.62 times as on 31 March, 2022 due to decrease in the company's overall debt of Rs.259 Cr in FY2023 as against Rs.274 Cr in FY2022. The total debt of Rs.259 Cr as on March 31, 2023 comprises of long-term bank borrowings of Rs.109 Cr and short term bank borrowings of Rs.150 Cr. The gearing of the company is however expected to increase in FY2024 on account of availing the incremental long-term debt of Rs.96 Cr from the bank towards completion of the scheduled capex of increasing the production capacity of its distillery unit.

The interest coverage ratio though moderated, however remained comfortable at 6.46 times in FY2023 as against 10.07 times in FY2022 whereas the DSCR stood below unity at 0.91 times in FY2023 as against 1.59 times in FY2022. The Net Cash Accruals to Total debt stood lower at 0.17 times for FY2023 as against 0.28 times for FY2022. The Total outside liabilities to Tangible net worth stood at 0.73 times for FY2023 as against 0.80 times for FY2022. The Debt-EBITDA ratio stood increased at 4.19 times for FY2023 as against 2.42 times for FY2022.

Acuité believes that the financial risk profile of TSBSFL is expected to remain healthy over the medium term despite the expected increase in the debt levels vis-à-vis healthy tangible net worth and moderate debt protection metrics.

Increase in revenue albeit decline in profitability margins
The revenue of TSBSFL stood improved at Rs.661 Cr in FY2023 as against Rs.558 Cr in FY2022 which is a growth of ~18 percent achieved based on its overall improvement in the production and sale of sugar, power and ethanol during the year.

Despite of increase in the revenue, the operating margin of the company however stood decline at 8.29 percent in FY2023 as against 19.59 percent in FY2022, due to an increase in the cost of raw materials consumed and changes in the inventory value of company's finished goods at the end of the year due to pricing effect. In addition to this, the margins remained significantly high in the past due to sugar exports which were carried out as per the quota released by the government against which the company received the export incentives, however in FY2023 due to the no sugar exports, the margins have therefore remained affected. Further, the net profit margin of the company also stood decline at 2.09 percent in FY2023 as against 7.98 percent in FY2022 due to overall decline in the company's absolute EBITDA levels despite of decrease in the interest cost and depreciation charge during the year.

For the current year, as of September 2023, TSBSFL has achieved revenue of Rs.372 Cr as against Rs.334 Cr as of September 2022. The ongoing capex plan of the company towards increasing its present installed capacity of the ethanol production is expected to be completed in February 2024 and the commercial operations are expected to begin from March 2024. Accordingly, it is estimated that going forward the company will achieve higher revenue and improved profitability based on its improved sale of the products.

Acuité believes that the ability of TSBSFL to sustain steady growth in the scale of operations while improving the profitability margins will remain a key rating sensitivity factor.

Weaknesses

Moderately working capital intensive operations
The working capital operations of TSBSFL are moderately intensive marked by its Gross Current Assets (GCA) of 163 days for FY2023 which stood improved as against 250 days for FY2022. This is on account of its inventory cycle which stood improved at 159 days in FY2023 as against 282 days for FY2022. The sugar cane procurement is generally higher by March, hence, the inventory levels tend to be higher across the industry during the end of financial year. On the other hand, the receivables cycle of the company stood at similar level of 12 days in FY2023 and in FY2022, whereas the creditors cycle of the company stood improved at 16 days in

FY2023 as against 26 days in FY2022. The average bank limit utilization for 6 months' period ended December 2023 stood lower at ~3 percent.

Acuité believes that the ability of TSBSFL to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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 sugar companies.

Rating Sensitivities

- Ability to sustain steady growth in the scale of operations while improving the profitability margins
- Ability to improve and maintain an efficient working capital cycle

Liquidity Position - Adequate

TSBSFL has adequate liquidity position marked by sufficient liquid funds available in the form of fixed deposits with the bank of Rs.115 Cr for FY2023. The company generated net cash accruals in the range of Rs.45 Cr to Rs.74 Cr during FY2021 to FY2023 against its debt repayment obligation in the range of Rs.44 Cr to Rs.50 Cr during the same period. The debt repayment obligations of the company are being timely serviced as confirmed by the lenders, despite the gap in the net cash accruals against the maturing debt obligations. Going forward, the NCA are expected in the range of Rs.54 Cr to Rs.74 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.40 Cr to Rs.50 Cr during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 163 days for FY2023. The average bank limit utilization for 6 months' period ended December 2023 stood lower at ~3 percent. Current ratio stands at 1.73 times as on 31 March 2023. The company has maintained cash & bank balance of Rs.1.51 Cr in FY2023.

Acuité believes that the liquidity of TML is likely to remain adequate over the medium term on account of sufficient liquid funds against its maturing debt obligations.

Outlook: Stable

Acuité believes that TSBSFL will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations and healthy financial risk profile. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	661.10	558.35
PAT	Rs. Cr.	13.84	44.55
PAT Margin	(%)	2.09	7.98
Total Debt/Tangible Net Worth	Times	0.57	0.62
PBDIT/Interest	Times	6.46	10.07

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
- 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, Acuité 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
02 Nov 2022	Bank Guarantee	Short Term	25.00	ACUITE A1+ (Reaffirmed)
	Cash Credit	Long Term	148.00	ACUITE A+ | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.75	ACUITE A+ | Stable (Reaffirmed)
	Term Loan	Long Term	126.76	ACUITE A+ | Stable (Reaffirmed)
	Term Loan	Long Term	20.49	ACUITE A+ | Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	62.00	ACUITE A+ | Stable (Assigned)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	25.00	ACUITE A1 | Downgraded (from ACUITE A1+)
State Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	148.00	ACUITE A | Stable | Downgraded (from ACUITE A+)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2024	Simple	3.15	ACUITE A | Stable | Downgraded (from ACUITE A+)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2024	Simple	38.41	ACUITE A | Stable | Downgraded (from ACUITE A+)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2029	Simple	59.75	ACUITE A | Stable | Downgraded (from ACUITE A+)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Mar 2029	Simple	7.00	ACUITE A | Stable | Downgraded (from ACUITE A+)
HDFC Bank Ltd	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2024	Simple	88.35	ACUITE A | Downgraded & Withdrawn (from ACUITE A+)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2024	Simple	17.34	ACUITE A | Downgraded & Withdrawn (from ACUITE A+)

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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.