

Press Release

Shree Halasidhanath Sahakari Sakhar Karkhana Limited

July 27, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 65.00 Cr.
Long Term Rating	ACUITE B/Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs. 65.00 crore bank facilities of Shree Halasidhanath Sahakari Sakhar Karkhana (SHSSK). The outlook is '**Stable**'.

SHSSK is a Belgaum based co-operative society. It started its commercial operations in April 1987. It is primarily engaged in manufacturing of sugar. It is also engaged in the generation of electricity. SHSSK has a sugar cane crushing capacity of 3500 MTD and power plant has a capacity of 15 MW. It sells electricity generated in excess of used in its sugar production to HESCOM.

Analytical Approach

For arriving at the ratings, Acuite has considered the standalone financial and business risk profile of SHSSK.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in the industry, established track record of operations and presence in the industry**

SHSSK is a co-operative society established in 1987 and has been in operations since. It is headed by Mr. Shiva Kulkarni (MD). He is supported by second tier management with experience of over three decades. The company has a long track record of operations, established presence in the industry and relations with its customers and suppliers.

Acuite believes that SHSSK will continue to benefit from the extensive experience of its management, established track record of operations and presence in the industry.

Weaknesses

- **Working capital intensive nature of operations**

The operations are working capital intensive marked by high Gross Current Assets (GCA) of 344 days in FY2020 (Provisional) and 454 days in FY2019. The high GCA days are on account of the high inventory holding period of 313 days in FY2020 (Provisional) as against 414 days in FY2019. The entity was not able to sell the product and hence high amount of inventory.

- **Cyclicality associated with sugar industry**

The operations of the entity are dependent on sugarcane production which is highly dependent on the monsoon and prices prevailing in the alternative crops such as rice and wheat. The sector is also marked by the presence of several other players which lead to intense competition from the other players.

- **Susceptibility of profitability to volatility in raw material prices**

Sugar and the other by-products manufactured by the entity remain extremely sensitive to fluctuations in commodity prices, thereby impacting the overall revenue and profitability profile of the group. Sugarcane production is highly dependent on the monsoon and fluctuation in FRP (Fair Remunerative Price) will have a bearing on the overall revenue and profitability.

Liquidity Position: Poor

SHSSK's net cash accruals are expected to be negative for period FY2021-2023 against repayment obligations of Rs. 10 crore for the same period. Hence, the entity depends on call deposits from its members to meet the repayment obligations. The entity's operations are highly working capital intensive marked by GCA of 344 days in FY2020 (Prov.) and 454 days in FY2019. This makes the company dependent on bank borrowing to fund its working capital requirement. The average bank limit utilization stood at ~70 percent for the six month period ended June 2020. Acuite believes SHSSK's liquidity profile to remain poor over the medium term on account of its negative cash accruals and highly working capital intensive operations.

Rating Sensitivities

- Significant improvement in operating performance
- Any elongation of the working capital cycle, leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuite believes SHSSK will maintain 'Stable' business risk profile in the medium term on the back of established operational track record and long-standing experience of the promoters in the business. The outlook may be revised to 'Positive' in case of improvement in operating risk profile and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of stretched working capital cycle or deterioration in its operating risk profile due to lower than expected improvement in profitability.

About the Rated Entity – Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	147.64	115.48
Profit after Tax (PAT)	Rs. Cr.	(26.92)	(26.68)
PAT Margin	(%)	(18.24)	(23.10)
Total Debt/Tangible Net Worth	Times	(3.10)	(7.21)
PBDIT/Interest	Times	0.45	0.35

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

CRISIL vide its press release dated March 26, 2020 has mentioned the rating of SHSSK as 'CRISIL B- (Issuer not co-operating)' as on March 26, 2020.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.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 (Upto last three years)

None

*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	35.00	ACUITE B/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE B/Stable

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Parth Pandit Analyst - Rating Operations Tel: 022-49294032 parth.pandit@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

About Acuite Ratings & Research:

Acuite Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuite 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. Acuite ratings 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, Acuite, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuite 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. Acuite ratings 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 Acuite.