

## Press Release

Shree Halasidhanath Sahakari Sakhar Karkhana Limited

January 13, 2023



## Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	65.00	ACUITE B   Stable   Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	65.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

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

### Rationale for rating reaffirmation

The reaffirmation in the rating reflects the long track record of operations of the entity & experienced management and improvement in the revenues & operating margins in FY2022. The rating, however, continues to remain constrained on account of below average financial risk profile marked by negative net worth, poor gearing & moderate debt protection metrics, working capital intensive operations marked by high inventory levels and poor liquidity position.

### About the Company

SHSSK is a Belgaum-based co-operative society and started its commercial operations in April, 1987. The entity is presently managed by the directors i.e. Mr. Chandrakant S. Kothiwale, Mr. Malagonda P. Patil, Mr. Appasaheb S. Jolle, Mr. Vishwanath S. Kamate, Mr. Ramagonda Y. Patil, Mr. Ramagonda B. Patil, Mr. Avinash A. Patil, Mr. Samit B. Sasane, Mr. Sukumar Baburao Patil Budihalkar, Mr. Rajaram M. Khot, Mr. Mhalappa S. Pisutre, Mr. Pratap J. Metrani, Mr. Kallappa B. Naik, Mrs. Manisha V. Rangole, Mrs. Ujwala P. Shine and Mr. Sujit S. Joshi. The company runs sugar factory having a sugar cane crushing capacity of 3500 TCD. Further, the company has a cogeneration power plant with capacity of 15 MW. The excess electricity generated is sold to Hubli Electricity Supply Company Limited (HESCOM).

### Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SHSSK to arrive at the rating.

### 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. The entity is presently managed by the directors i.e. Mr. Chandrakant S. Kothiwale, Mr.

Malagonda P. Patil, Mr. Appasaheb S. Jolle, Mr. Vishwanath S. Kamate, Mr. Ramagonda Y. Patil, Mr. Ramagonda B. Patil, Mr. Avinash A. Patil, Mr. Samit B. Sasane, Mr. Sukumar Baburao Patil Budihalkar, Mr. Rajaram M. Khot, Mr. Mhalappa S. Pisutre, Mr. Pratap J. Metrani, Mr. Kallappa B. Naik, Mrs. Manisha V. Rangole, Mrs. Ujwala P. Shine and Mr. Sujit S. Joshi with experience of over three decades. The entity has a long track record of operations, established presence in the industry and relations with its customers and suppliers. Acuité 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**

#### **Below average financial risk profile**

Financial risk profile of SHSSK is below average marked by negative net worth, poor gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) & moderate debt protection metrics. Net worth of the company remains negative due to accumulated losses. Total debt of Rs. 455.66 Cr in FY 2022 consists of Rs. 75.36 Cr of term loan liabilities, Rs. 283.69 Cr of call deposits from members, Rs. 80.61 Cr of working capital borrowings and Rs. 16.00 Cr of CPLTD. Debt to Equity remained negative at -4.58 times in FY 2022 as against -5.25 times in FY 2021 due to negative net worth base. Interest coverage ratio improved but remained weak at 0.68 times in FY 2022 as against 0.48 times in FY 2021. DSCR is weak at 0.52 times in FY 2022 and the entity is managing maturing debt obligations through call deposits. Debt-EBITDA has improved but remains high at 12.98 times in FY 2022 as against 26.92 times in FY 2021. Since the entity is executing capex using call deposits from members of the society hence financial risk profile is expected to moderate further in the coming times.

#### **Working capital intensive operations**

SHSSK's operations are working capital intensive marked by GCA days of 327 in FY 2022. High GCA days is marked by high inventory period. Inventory holding period has improved but remained high at 297 days in FY 2022 as against 521 days in FY 2021. SHSSK has inventory holding policy of 1 year. Debtor realization period stood at 24 days in FY 2022 as against 26 days in FY 2021. Creditor days stood at 21 in FY 2022 as against 49 in FY 2021. Average bank limit utilization remained at 80.01% on a consolidated level for the 6 months' period between April 2022 to September 2022.

#### **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) which will have a bearing on the overall revenue and profitability.

### **Rating Sensitivities**

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

### **Material covenants**

None.

### **Liquidity Position**

#### **Poor**

SHSSK's liquidity position is poor marked by cash losses in the fiscals under consideration. Entity is meeting its maturing debt obligations through call deposits made by members of the

cooperative. In FY 2022 unencumbered cash and bank deposits stood at Rs. 14.29 Cr. Current ratio stood at 1.39 times in FY 2022. Average bank limit utilization remained at 80.01% on a consolidated level for the 6 months' period between April 2022 to September 2022.

### Outlook: Stable

Acuité believes that SHSSK will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the entity demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the entity registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

### Other Factors affecting Rating

None.

### Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	238.31	129.94
PAT	Rs. Cr.	(20.77)	(20.92)
PAT Margin	(%)	(8.72)	(16.10)
Total Debt/Tangible Net Worth	Times	(4.58)	(5.25)
PBDIT/Interest	Times	0.68	0.48

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

CRISIL vide its press release dated 19 August 2022, has mentioned the rating of SHSSK to '[CRISIL]B-/Stable' Issuer Not Cooperating as on 19 August 2022.

CARE vide its press release dated 07 December 2022, has mentioned the rating of SHSSK to '[CARE]B-/Stable' Issuer Not Cooperating as on 07 December 2022.

### 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. Acuité'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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Oct 2021	Cash Credit	Long Term	30.00	ACUITE B   Stable (Reaffirmed)
	Cash Credit	Long Term	35.00	ACUITE B   Stable (Reaffirmed)
27 Jul 2020	Cash Credit	Long Term	30.00	ACUITE B   Stable (Assigned)
	Cash Credit	Long Term	35.00	ACUITE B   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE B   Stable   Reaffirmed
Belgaum DCC Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE B   Stable   Reaffirmed

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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.

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