

Press Release

Shree Datta Shetkari Sahakari Sakhar Kharkhana Limited

October 06, 2021



Rating Assigned and Reaffirmed

Total Bank Facilities *	125.00 Cr. (Enhanced from 25.00 Cr.)
Long Term Rating	ACUITE BBB/ Outlook: Stable (Assigned and Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has assigned and reaffirmed its long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) on the Rs. 125.00 crore-bank facilities of Shree Datta Shetkari Sahakari Sakhar Karkhana Limited (SDSSKL). The outlook is '**Stable**'.

The rating reflects SDSSKL's experienced management, long track record of operations and financial support received from its subsidiary Urjankur Shree Datta Power Company Limited (USDPCL). The rating also takes into account the SDSSKL's healthy cane crushing operations and sugar recovery rates. However the below average standalone financial risk profile and working capital intensive nature of operations impart a negative bias to the rating. SDSSKL's ability to improve its standalone financial risk profile remain a key rating sensitivity.

About the Entity

SDSSKL started its operations in 1970 with a license to operate a 1250 Tons Crushed per Day (TCD) sugar plant in Shirol, Kolhapur. It is a co-operative society governed by the Multi-State Co-operative Societies Act of 2002 since it has its operations in two states Maharashtra and Karnataka. Its founding members were Late Mr. Dattajirao Kadam, Late Mr. Dinkarrao Yadav, Late Mr. Vishwasrao Ghorpade and Late Mr. S R Patil. Currently, Mr. Ganpatrao Patil is its Chairman and day to day operations are managed by MD Mr. MV Patil. Today, the entity has a sugarcane crushing capacity of 9000 TCD and distillery capacity of producing 60 KLPD and 30 KLPD rectified spirits and ethanol respectively.

About the Group company

USDPCL is a Special Purpose Vehicle (SPV) of Urjankur Nidhi Trust [UNT] (Government of Maharashtra entity formed to facilitate non-conventional energy sources) and SDSSK that operates a 36 MW bagasse based thermal power plant in Kolhapur, Maharashtra. It was incorporated in 2008 and began commercial operations in 2011. Mr. MV Patil is currently its managing director. USDPCL has signed an agreement with its parent sugar factory for acquisition of bagasse fee cost against supply of part of electricity generated by it. For the rest of its output it has signed a power purchase agreement (PPA) with MSEDC in 2013 valid for 13 years.

Analytical Approach

Acuité has considered a standalone approach while assessing the business and financial risk profile of SDSSKL and has factored in the financial support it will receive from its subsidiary USDPCL in the form of unsecured loans.

Key Rating Drivers

Strengths

• Experienced management, along with integrated business model and diversified revenue stream

The entity was established in 1970 and has established operational track record of over five decades. Its founding members were Late Mr. Dattajirao Kadam, Late Mr. Dinkarrao Yadav, Late Mr. Vishwasrao Ghorpade and Late Mr. S R Patil. Currently Mr. Ganpatrao Patil is its Chairman and day to day operations are managed by MD Mr. MV Patil. The management has gained good insight about the industry over the years and have developed healthy customer and suppliers relations. The entity has been able to de-risk their core sugar operations to some extent by forward integrating into distillery as

well as cogeneration operations. Although co-generation operations are managed through a separate subsidiary (USDPCL). SDSSSKL operates 9,000 TCD of sugar cane crushing capacity in Shirol, Kolhapur and distillery with capacity of 60 KLPD rectified spirit processing and 30 KLPD ethanol processing for FY2021. It also has 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 incentivize ethanol production. During FY2021 the revenue from sale of sugar, rectified spirits and ethanol stood at Rs. 413 crore, Rs.19.40 crore and Rs. 18.69 crore respectively. The same stood at Rs. 472.12 crore, Rs. 35.40 crore and Rs. 12.24 crore respectively in FY2020.

Acuité expects the SDSSSKL will benefit from its experienced management, extensive track record of operations and integrated business model.

- **Healthy cane crushing operations and improved recovery rates**

The entity operated for around 148 days in FY2021 and has crushed 11.92 lakh tons of cane. For FY2020 it operated for 135 days and has crushed 10.47 lakh tons of cane. Thus the capacity utilization has consistently remained above 80 percent since FY2020. 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 12.10% in FY2020 to 12.49% in FY2021 in the sugar segment of the entity which has also led to enhanced sugar production.

Acuité believes that SDSSSKL's ability to maintain its cane crushing operations and sugar recovery rates will be a key monitorable.

- **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 on loans for ethanol capacity expansion, increased the price of ethanol, and fixed a separate price for B-heavy molasses based ethanol and ethanol from sugarcane juice etc. Further, Government in June 2021 has also brought forward the deadline to increase the ethanol blending in petrol to 20% by 2030 to 2025. Currently it stands at 7-8%. This will lead to increase in ethanol demand for sugar companies with integrated operations. Currently, sugar companies are able to supply only 70% of tenders floated by oil marketing companies. To further benefit from the favorable Government policies SDSSSKL will undertake a capacity expansion of its sugarcane crushing operations to 11000 TCD and of its distillery division by another 60 KLPD in FY2023.

Weakness

- **Below average standalone financial risk profile**

The entity has below average financial risk profile marked by high gearing and modest coverage indicators. Gearing stood at 3.66 times as on March 31, 2020 against 3.29 as on March 31, 2019. Total debt stood at Rs. 402.06 crore as on March 31, 2020 against Rs. 360.03 crore as on March 31, 2019. Debt in FY2020 consists of Rs. 344.80 crore of working capital borrowings and rest are term loans. The interest coverage ratio stood modest at 1.22 in FY2020 declining from 1.55 in FY2019. This primarily is on account of increase in interest costs from Rs. 12.25 crore in FY2019 to Rs. 25.73 crore in FY2020. Debt to EBITDA stood high at 12.83 times in FY2020 against 18.94 times in FY2019. TOL/TNW stood at 4.96 times as on March 31, 2020 against 4.93 times in the previous year. Gearing is expected to remain at similar levels in FY2022 and is further expected to increase in FY2023 on account of its debt funded expansion plan.

However support available from USDPCL - its subsidiary is a mitigant against its below average financial profile. The management has passed a resolution committing support from liquid investment of USDPCL to SDSSSKL of Rs. 40.00 crore in form of unsecured loans. They have also provided for further support if required. USDPCL has liquid investments of ~Rs. 80.00 crore as on March 31, 2021. Further it has generated net cash accruals of 46.26 crore in FY2021 (Provisional) and Rs. 40.62 crore in FY2020. Going forward it is expected to generate cash accruals in the range of Rs. 43-44 crore. It has no outstanding debt obligations as on March 31, 2021.

Acuité believes that SDSSSKL's ability to improve its standalone financial risk profile will remain a key rating sensitivity.

• **Working capital intensive operations**

SDSSSKL's operations are working capital intensive marked by GCA of 373 days in FY2020 against 406 days in FY2019. 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 entity 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 75%. Inventory days stood at 300 days in FY2020 and 343 days in the previous year. Export subsidy receivable also forms significant portion of the current assets. It stood at Rs. 51.67 crore for FY2020 and FY2021.

SDSSSKL's ability to maintain its working capital cycle without further elongation will be a key rating sensitivity.

• **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.

Liquidity Position: Adequate

SDSSSKL is expected to generate NCAs in the range of Rs. 4.56 – 13.55 crore in FY2021-23 against repayment obligations in the range of Rs. 7.00 -8.00 crore for the same period. The entities operations are also working capital intensive with of GCA of 373 days in FY2020. Bank limits utilization remains at 75% for six month period ended April 2021. However the entity has support from its subsidiary which has liquid deposits of ~Rs. 80 crore as on March 31, 2021 out of which management has committed deposits of Rs. 40 crore for supporting SDSSSKL. It also has made provisions of increasing support if required. SDSSSKL's overall liquidity profile will remain adequate on account of support from its Group entity constrained to some extent by its working capital intensive nature of operations

Rating Sensitivities

- Ability to improve its standalone financial risk profile
- Ability maintain its cane crushing and sugar recovery rates
- Continued financial support from its subsidiary

Material Covenants

None

Outlook: Stable

Acuité believes that SDSSSKL will maintain 'Stable' outlook over the medium term on the back of experienced management, long track record of operations and financial support from USDPCL. The outlook may be revised to 'Positive' in case of improvement in standalone capital structure while increasing the scale of operations. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the financial profile or any stretch in working capital cycle leading to adverse impact on liquidity.

About the Rated Group - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	495.84	449.26
Profit after Tax (PAT)	Rs. Cr.	0.34	1.70
PAT Margin	(%)	0.07	0.38
Total Debt/Tangible Net Worth	Times	3.66	3.29
PBDIT/Interest	Times	1.22	1.55

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

CRISIL vide its press release dated September 22, 2020 has mentioned the rating of SDSSSKL as 'CRISIL B/ Stable Issuer not co-operating' as on 22-Sep-2020.

Any other information

Not Applicable

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>
- Criteria for Group and Parent Support - <https://www.acuite.in/view-rating-criteria-47.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
02-Jul-2021	Cash Credit	Long Term	25.00	ACUITE BBB/Stable (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
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	46.00 (Enhanced from Rs. 25.00)	ACUITE BBB/ Stable (Reaffirmed)
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	71.00	ACUITE BBB/ Stable (Assigned)
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB/ Stable (Assigned)

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About Acuité Ratings & Research:

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