

Press Release

Jawahar Shetkari Sahakari Sakhar Karkhana Limited

October 29, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.18.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned a long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.18.00 crore bank facilities of Jawahar Shetkari Sahakari Sakhar Karkhana Ltd. (JSSSKL). The outlook is '**Stable**'.

Rationale for assigned rating

Rating assigned to JSSSKL takes into account established track record of operations of over 2 decades in the sugar industry, high sugar recovery of over 11per cent, in-house co-generation facility and by-products supporting revenue, and moderate financial profile. The rating, however, is constrained by working capital intensive nature of operations and cyclical and regulated nature of the sugar industry.

About the Company

Incorporated in 1990, Kolhapur based JSSSKL was registered under the Maharashtra Co-operative Societies Act 1960 in January 1990 and its status was changed to a 'Multi-State Co-operative Society' in 1994 by addition of villages in Karnatak besides Maharashtra. JSSSKL is into production and selling of sugar and other by products like molasses, bagasse, phospo compost, etc. It also has co-generation power plant with installed capacity of 27MW and also runs HPCL's petrol pump, which is adjacent to the factory. It is promoted by Mr Gopal Manohar Joshi.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of JSSSKL to arrive at the rating

Key Rating Drivers

Strengths

• Established track record of operations in sugar industry

JSSSKL was incorporated in 1990 and manufactures sugar and by products such as molasses, bagasse, phospo compost, etc. The promoters are into the sugar industry since past more than 2 decades. JSSSKL, over the years has not only expanded its cane crushing capacity to 12,000 tons per day from ~1016 tons per day initially but has also built long-standing relationship with farmers. Cane crushing capacity is expected to increase further to ~16,000 tons per day in FY22. JSSSKL also undertakes programme like cane development through providing good quality seed on credit, fertilisers, and also offers guidance to farmers for modern farming, training for cultivation, etc. The good relationship with farmers enables JSSSKL in adequate and timely procurement of cane.

• Higher sugar recovery and in-house co-generation facility

JSSSKL has its facility in Kolhapur, Maharashtra, which is one of the good sugarcane area in the country with favourable soil and agro-climatic condition. Thus, availability of good quality sugarcane is resulting in higher sugar recovery for JSSSKL marked by its average recovery rate of over 12per cent in the last two financial years ending March 31, 2021. This apart, the company's co-generation unit, with installed capacity of 27MW takes care of the power requirement of JSSSKL and ~48 to 50% is sold to the MSEDCL. Further, other by-products such as molasses, bagasse, etc. are sold to the outside market, which supports the overall revenue of the company.

JSSSKL's operating income in FY21 increased by 19.52per cent to Rs.850.40 crore. This was led by the sugar segment, which registered ~28per cent growth in sales in FY21. Quantity of sugar sold by the company increased by ~21per cent in FY21. However, EBITDA margin of the company contracted to 7.72 per cent in FY21 from 11.35per cent in FY20. This was on account of lower gross profit margin. The company reported losses at the operating PBT level in FY21 and PAT margin stood at 0.27per cent

However, going ahead, higher sugar realisation led by higher exports and higher crushing capacity are expected to support revenue growth of the company in the near to medium term. Acuite expects JSSSKL's operating income is estimated to increase at a CAGR of ~8-9per cent and EBITDA margin would remain ~8per cent level over a medium term.

• **Moderate financial risk profile**

JSSSKL has moderate financial risk profile marked by moderate gearing position and debt-protection metrics. The company's net worth, as on March 31, 2021 stood at Rs.175.55 crore against Rs.215.92 crore as on March 31, 2020.

Though JSSSKL's gearing level improved as on March 31, 2021, it remained at a moderate level. Debt to equity ratio stood at 2.76 times as on March 31 2021 compared to 3.26 times as on March 31, 2020. Lower debt to equity ratio, as on March 31, 2021, was due to lower debt level, which stood at Rs.483.91 crore. Total debt as of March 2021 comprised long-term loan of Rs.83.92 crore and short-term loan of Rs.399.99 crore. Major portion of long-term loans are working capital loans in the form of soft loans. Going ahead, debt to equity ratio of JSSSKL is expected to remain at a moderate level of nearly 3 times in the medium term, provided no significant debt-funded capex. Total outside liabilities to tangible net worth (TOL/TNW), as on March 31, 2021, was at 4 times.

Interest coverage ratio of JSSSKL, in FY21, stood almost at par with the year-ago level of 1.3 times, while debt service coverage ratio (DSCR) declined to below unity due to higher debt repayment obligations. Going ahead, interest coverage ratio is expected to remain over 1.5 times during FY22 to FY24. DSCR, however, would remain below unity for FY22, due to higher debt repayment.

Weaknesses

• **Working capital intensive operations**

JSSSKL has intensive working capital operations marked GCA days of 309 to 454 in the last three years ending March 31, 2021. GCA days are driven by high inventory level, which stood at 294 for FY21 against 400 for FY20. Given the seasonal nature of the sugar industry, inventory level is high during the peak season, which is November to April. While, bank limit utilization of JSSSKL stood lower at ~31per cent for the last 3 months ended August 2021. Going ahead, GCA days of the company are estimated to remain above 300 level in the medium term.

• **Cyclical and regulated nature of sugar industry**

The sugar industry is cyclical in nature and is vulnerable agro-climatic conditions and 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

JSSSKL has adequate liquidity position marked by lower bank limit utilization of ~31per cent during the last 3 months through August 2021. Further, current ratio of JSSSKL stood at a moderate level of 1.16 times as on March 31, 2021. Going ahead, cash accruals of the company are estimated in the range of ~Rs.29 crore during FY22 to FY23 against debt repayment of up to Rs.79.97 crore. However, liquidity support through government subsidy, deposits from customers/members and earmarked account for repayment of soft loans offer some comfort.

Rating Sensitivities

- Deterioration in operating profit margin
- Elongation of working capital cycle

Material Covenants

Nil

Outlook: Stable

Acuite believes that JSSSKL would maintain stable outlook on account of established track record of operations and experienced management. The outlook would be revised to positive in case of higher than expected revenue growth and profit margins. Conversely, the outlook would be revised to negative if the company reports lower than expected revenue and profits, thus hurting financial risk profile and liquidity of the company.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	850.40	711.54
PAT	Rs. Cr.	2.31	1.55
PAT Margin	(%)	0.27	0.22
Total Debt/Tangible Net Worth	Times	2.76	3.26
PBDIT/Interest	Times	1.30	1.27

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

ICRA vide its press release dated April 21, 2021 has mentioned JSSSKL's rating as BB/Stable Issuer Not Cooperating as on April 21, 2021.

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*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	18.00	ACUITE BBB-/Stable (Assigned)

Contacts

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