

Press Release

Sri Chamundeswari Sugars Limited

February 07, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.87	ACUITE B+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	14.87	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details.

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) to the Rs.14.87 crore bank facilities of Sri Chamundeswari Sugars Limited (SCSL). The outlook is '**Stable**'.

About the Company

Sri Chamundeswari Sugars Limited is a Bangalore based company incorporated in 1970. The company was promoted by Dr. N Mahalingam of the ABT Group. The company is engaged in manufacturing of sugar, ENA, and Co-generation Power. The company has 2 manufacturing units, one at K M Doddi (Mandya District) and other at Hemavathi (Hassan District) and the registered office is at Bangalore. The company has an installed capacity to manufacture sugar of 8500 TCD, distillery unit of 50 KLPD, and Co-generation power unit of 47 MW.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SCSL to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operation

SCSL is a Bangalore based company incorporated in 1970. The company is managed by Mr. M Srinivaasan and has an experience of over 2 decades. He was also the President of South India Sugar Mills Association, Karnataka for 2 terms and he was also President of Indian Sugar Mills Association (ISMA), all India Association for a term of one year. The revenue of the company stood at Rs.388.70 crore in FY2021 as against Rs.394.15 crore in FY2020. The operating margin of the company stood at 12.26 percent in FY2021 as against 14.11 percent in FY2020. PAT margin stood at 1.20 percent in FY2021 as against 1.71 percent in FY2020. Also, the company is located at close proximity to river based irrigation system which results in adequate sugar cane availability. Also, the introduction of MSP ensures stable sugarcane prices, thereby having a positive impact on the revenue and profitability margin in the medium term. Also, the government support towards production of ethanol will eventually benefit the company in the medium term.

Acuite believes that the company will continue to benefit through the promoter's extensive industry experience and established track record over the medium term.

Weaknesses

Moderate financial risk profile

The financial risk profile of the company stood moderate marked by healthy net worth, moderate gearing and moderate debt protection metrics. The tangible net worth stood at Rs.203.68 crore as on March 31, 2021 as against Rs.199.30 crore as on March 31, 2020. The reason for improvement in net worth is due to accretion of profit in the reserves. The total debt of the company stood at Rs.557.49 crore includes Rs.418.68 crore of long term debt, Rs.11.12 crore of unsecured loans and Rs.127.69 crore of short term debt as on March 31, 2021. The gearing (debt-equity) stood at 2.74 times as on March 31, 2021 as compared to 2.74 times as on March 31, 2020. Interest Coverage Ratio stood at 1.35 times for FY2021 as against 1.47 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 0.51 times for FY2021 as against 0.53 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 3.80 times as on March 31, 2021 as against 3.86 times on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.03 times for FY2021 as against 0.03 times for FY2020.

Acuité believes that the financial risk profile of the company is expected to remain at the same level over the medium term.

Moderately intensive working capital operations

The working capital management of the company is moderately intensive marked by GCA days of 118 days in FY2021 as against 147 days in FY2020. The improvement in GCA days is due to improvement in inventory days stood at 41 days in FY2021 as against 55 days in FY2020. Also, the debtor days improved and stood at 8 days in FY2021 as against 16 days in FY2020. The average bank limit utilization stood moderate at around 81-85 percent for the last 7 months ended December 2021.

Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Cyclicality associated with sugar industry and susceptibility of profitability to volatility in raw material prices

The operations of the group 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. Sugarcane and the other by-products manufactured by the group 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.

ESG Factors Relevant for Rating

The inherent material risk to this industry includes releasing toxic greenhouse gases into the atmosphere and determination of the products carbon footprint. Equally important are other issues such as water usage and efficiency along with waste disposal. The company has made attempt to install Cooling tower which replaces and increases the cooling effect, resulting in more temperature difference, reduced water flow to condenser. Finally only one cooling tower fan kept in continues operation and other on standby.

The areas where the company focus on social responsibility front includes Education, Health, Watershed Management, Rural Development, Promotion of Sports, Culture & Heritage for intervention to create a positive impact on the community. Also, the company has made contribution of Rs.42.68 lakhs as a CSR contribution to Covid Relief Fund and Chief Minister Relief Fund.

Governance factors albeit important have lower significance to this industry in comparison to social and environmental issues.

Rating Sensitivities

Maintaining and improving the scale of operations and profitability margins
Improvement in overall financial risk profile.
Further stretch in the working capital cycle and liquidity profile of the company.

Material covenants

None.

Liquidity Position: Stretched

The company has stretched liquidity marked by lower net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.00-17.00 crore during the last three years through 2019-21, while the maturing debt obligation is in the range of Rs.66.00-107.50 crore during the same period. The company's working capital operation stood moderately intensive marked by GCA days of 118 days in FY2021 as against 147 days in FY2020. The company maintains an unencumbered cash and bank balances of Rs.9.60 crore as on March 31, 2021. The current ratio of the company stood low at 0.23 times as on March 31, 2021. The average bank limit utilization stood moderate at around 81-85 percent for the last 7 months ended December 2021.

Outlook: Stable

Acuité believes the company will maintain a stable business risk profile over the medium term. The company will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the company shows improvement in the scale of operations and profitability margin while improving its financial risk profile, working capital cycle and liquidity position. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's revenue or profitability or significant deterioration in the working capital cycle leading to deterioration in its financial risk profile and liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	388.70	394.15
PAT	Rs. Cr.	4.67	6.74
PAT Margin	(%)	1.20	1.71
Total Debt/Tangible Net Worth	Times	2.74	2.74
PBDIT/Interest	Times	1.35	1.47

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>
- Manufacturing Entities: <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

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

Rating History :

Not Applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+ Stable Assigned
IDBI Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ Stable Assigned
Indian Bank	Not Applicable	Term Loan	01-07-2019	13.5	31-12-2022	5.87	ACUITE B+ Stable Assigned

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About Acuité Ratings & Research

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