

Press Release

Sri Chamundeswari Sugars Limited

February 24, 2023



Rating Upgraded and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.87	ACUITE BB- Stable Upgraded	-
Bank Loan Ratings	4.00	Not Applicable Withdrawn	-
Total Outstanding Quantum (Rs. Cr)	10.87	-	-
Total Withdrawn Quantum (Rs. Cr)	4.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.10.87 crore bank facilities of Sri Chamundeswari Sugars Limited (SCSL). The outlook is '**Stable**'.

Acuite has also withdrawn its rating on the Rs.4.00 crore bank facilities of Sri Chamundeswari Sugars Limited (SCSL). The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating.

The rating is being partially withdrawn on account of request received from the company and NOC received from the banker.

Rationale for rating upgrade

The rating upgrade of SCSL takes into account improvement in the company's operational performance in FY2022. It also draws comfort from company's experienced management and established track record of operations. The rating is however constrained by the company's below average financial risk profile marked by high gearing, modest debt protection metrics and high dependence on bank borrowings for working capital requirements. Going forward, ability of the company to improve its financial risk profile, maintain an efficient working capital cycle and to maintain its scale of operations while improving its net profit margin will remain a key rating sensitivity factor.

About the Company

SCSL incorporated in 1970, is a Bangalore based company promoted by Dr. N Mahalingam of ABT Group, is engaged in manufacturing of sugar, ENA, and Co-generation power. The company has two manufacturing units, one at K M Doddi (Mandya District) and the 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 operations

SCSL incorporated in 1970, is a Bangalore based company originally promoted by Dr. N Mahalingam of ABT Group and currently managed by Mr. M Srinivaasan who possess over two decades of experience in the sugar industry. Mr. Srinivaasan is competently supported by a second line of management. The extensive experience of the promoters, has aided the company in forming healthy relations with its customers and farmers. The company is located at close proximity to river-based irrigation system which results in adequate sugar cane availability.

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

Improving operating performance albeit moderation in profitability

SCSL reported an increase in its revenues of Rs.517 Cr for FY2022 as against Rs.389 Cr in FY2021 which is a growth of ~33 percent and has achieved this on account of improved sales realisation backed by an increase in the pricing as well as quantity sold of its sugar & distillery products. The company also benefitted through the expansion of its Unit II of sugarcane crushing which started its commercial operations during the season of FY2022.

The operating margin of the company stood improved at 18.70 percent in FY2022 as against 12.26 percent in FY2021 on account of overall improvement in the company's scale of operations and better price realisation of sugar during the year. However, the net profit margin of the company deteriorated marginally to 1.00 percent in FY2022 as against 1.20 percent in FY2021 on account of high interest cost and depreciation incurred during the year.

For the current year as on 9M FY2023, SCSL has achieved revenue of Rs.515 Cr as against Rs.415 Cr of 9M FY2022 and further it expects an increase in Q4 FY2023 due to increased crushing activity in both the units and better sugar recovery.

Acuité believes that the ability of SCSL to maintain its scale of operations while improving its net profit margin in near to medium term will remain a key rating sensitivity factor.

Weaknesses

Below average financial risk profile

Financial risk profile of SCSL is below average marked by high gearing and modest debt protection metrics. The networth of the company stood at Rs.209 Cr as on 31 March, 2022 as against Rs.204 Cr as on 31 March, 2021 on account of accretion to reserves. The gearing (debt-equity) however stood high at 2.77 times as on 31 March, 2022 as against 2.60 times as on 31 March, 2021 on account of subsequent increase in the long term and short term bank borrowings. The debt profile of the company has increased towards completion of scheduled capex plan of developing an additional unit for sugarcane crushing to increase the overall production. The total debt of Rs.579 Cr as on 31 March, 2022 consists of preference share capital of Rs.6 Cr, non-convertible debentures of Rs.30 Cr, long term bank borrowings of Rs.378 Cr, unsecured loans from directors of Rs.11 Cr and short term bank borrowings of Rs.154 Cr.

The interest coverage ratio stood improved at 1.43 times for FY2022 as against 1.35 times whereas the DSCR stood lower albeit marginally improved at 0.55 times for FY2022 as against 0.51 times for FY2021. The Net Cash Accruals to Total debt stood marginally improved at 0.05 times for FY2022 as against 0.03 times for FY2021. The Total outside liabilities to Tangible net worth stood high at 3.76 times for FY2022 as against 3.80 times for FY2021. The Debt-EBITDA ratio stood improved at 5.81 times for FY2022 as against 9.03 times for FY2021.

Acuité believes that ability of SCSL to improve its financial risk profile over the medium term will remain a key rating sensitivity factor.

Moderately working capital-intensive operations

The operations of SCSL are moderately working capital intensive marked by its Gross Current Assets (GCA) days of 98 days for FY2022 which stood moderately high albeit improved against 118 days for FY2021. The inventory cycle of the company stood at 39 days in FY2022 as against 41 days in FY2021 on account of increase in unsold inventory of sugar as finished goods lying with the company at the end of the financial year. On the other hand, the debtors stood at 12 days in FY2022 as against 8 days in FY2021 whereas the creditors stood moderately high at 74 days in FY2022 as against 108 days in FY2021 on account of subsequent increase in the purchase of sugarcane and molasses as raw materials from the suppliers. The average bank limit utilization for 6 months' period ended December 2022 stood high at ~98 percent.

Acuité believes that SCSL's ability to maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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

The operations of SCSL 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 company remain extremely sensitive to fluctuations in commodity prices, thereby impacting the overall revenue and profitability profile of the company. 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

- Ability to maintain scale of operations while improving net profit margin
- Ability to improve financial risk profile
- Ability to maintain an efficient working capital cycle

Material covenants

None

Liquidity position - Stretched

SCSL has stretched liquidity position marked by low net cash accruals (NCA) against its high debt repayment obligations and high bank limit utilisation on account of working capital

intensive operations. The company generated low cash accruals in the range of Rs.17 Cr to Rs.28 Cr during FY2020 to FY2022 against its high repayment obligation of Rs.72 Cr to Rs.90 Cr during the same period. The company is expected to generate NCA of Rs.42 Cr - Rs.52 Cr in the period FY2023 - FY2024 against repayment obligations of Rs.52 Cr - Rs.44 Cr. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 98 days for FY2022 as against 118 days for FY2021. The average bank limit utilization for 6 months' period ended December 2022 stood high at ~98 percent. Current ratio stands lower at 0.37 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.13 Cr in FY2022. Despite of overall stretch in the liquidity position, the debt repayments are timely serviced and there has been no instances of delays as confirmed by the lenders.

Acuité believes that the liquidity of SCSL is likely to remain stretched over the medium term on account of generating low cash accruals against its debt obligations.

Outlook: Stable

Acuité believes that SCSL will maintain 'Stable' outlook over the medium term on account of its experienced management with established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	516.97	388.70
PAT	Rs. Cr.	5.18	4.67
PAT Margin	(%)	1.00	1.20
Total Debt/Tangible Net Worth	Times	2.77	2.60
PBDIT/Interest	Times	1.43	1.35

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

None

Any other information

None

Applicable Criteria

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Feb 2022	Cash Credit	Long Term	5.00	ACUITE B+ Stable (Assigned)
	Term Loan	Long Term	5.87	ACUITE B+ Stable (Assigned)
	Cash Credit	Long Term	4.00	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
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB- Stable Upgraded (from ACUITE B+)
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	Not Applicable Withdrawn
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.40	ACUITE BB- Stable Upgraded (from ACUITE B+)
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.47	ACUITE BB- Stable Upgraded (from ACUITE B+)

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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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