

Press Release

Shri Balaji Sugars And Chemicals Private Limited

April 06, 2023



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	30.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating at '**ACUITE BB-' (read as ACUITE double B minus)** to the Rs.30.00 crore bank facilities of Shri Balaji Sugars and Chemicals Private Limited (SBSCPL). The outlook is '**Stable**'.

Rationale for Rating

The rating reaffirmation continues to factor established track record of operations of more than a decade in the sugar industry and the forward integration into cogeneration which produces power, leading to better operating margins. The rating, however, is constrained by below average financial risk profile marked by negative net worth, working capital intensive nature of operations and cyclical and regulated nature of the sugar industry. Going forward, SBSCPL's ability to improve its scale of operations while maintaining its profitability margins will remain key rating monitorable.

About the Company

Incorporated in 2011, Shri Balaji Sugars and Chemicals Private limited is a Karnataka based company promoted by Mr. Hanamanthgouda S Patil, Mr Venkatesh S Patil, Dr Ajit V Kanakaraddi, Mr Nandakumar V. Patil and Mr H L Patil. The company is engaged in manufacturing of sugar, ethanol and power cogeneration. The unit is located in Vijayapur (Karnataka) and has crushing capacity of 10,000 tonnes crushed per day (TCD) and an ethanol plant of 60 KLPD and will be expanded to 180 KLPD by March 2022. SMSEL also has a cogeneration plant of 18 mega-watts (MW).

Analytical Approach

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

Key Rating Drivers

Strengths

>Experienced management and established track record of operations

SBSCPL was incorporated in 2011. The company is promoted by Mr. Hanamanthgouda S Patil, Mr Venkatesh S Patil, Dr Ajit V Kanakaraddi, Mr Nandakumar V. Patil and Mr H L Patil. The promoter's have an experience of over a decade in the industry. The promoter's extensive experience has enabled the company to develop long-standing relations with its customer. Also, the company has recorded a revenue of around Rs.364.75 crore in FY2022 as against

Rs.334.39 crore in FY2021. Also, the company has already achieved Rs.517.37 crore in 11MFY23 and are expecting to record a revenue of around Rs.600-700 crore for FY2023. Similarly, EBITDA margin of the company stood at 23.39 percent in FY2022 as against 22.94 percent in FY2021. PAT margin stood at 4.84 percent in FY2022 as against 2.98 percent in FY2021. The improvement in margin in FY2022 is due to better price realization in sugar and better export incentives realization.

Acuité believes that the company will continue to benefit from its experienced management and longstanding relations with customers over the medium term.

Weaknesses

>Working capital intensive nature of operations

The working capital management of the company is intensive marked by GCA days of 285 days in FY2022 as against 184 days in FY2021. The inventory days stood at 281 days in FY2022 as against 151 days in FY2021. Also, the debtor days stood at 43 days in FY2022 as against 57 days in FY2021. The average credit period allowed to customers is around 30-60 days. The creditor days stood at 213 days in FY2022 as against 92 days in FY2021. The average bank limit utilization stood moderate at around 67 percent for the last 06 months ended January 2023. Acuité believes that efficient working capital management will be crucial to the company in order to maintain a healthy risk profile.

Below Average financial risk profile

The financial risk profile of the company stood average marked by negative net worth, negative gearing and moderate debt protection metrics. The tangible net worth stood at (Rs.17.70) crore as on March 31, 2022 as against (Rs.35.27) crore as on March 31, 2021. The reason for negative net worth is because the company has started production in the year-2015-16. However, in the season 2016-17 due to severe drought, the company was able to crush only 150000 MT and this has resulted into operating losses which was further accentuated by high interest burden in subsequent years resulting into complete erosion of capital. The total debt of the company stood at Rs.410.91 crore includes Rs.213.05 crore of long-term debt, Rs.13.36 crore of unsecured loans and Rs.184.50 crore of short-term debt as on March 31, 2022. The gearing (debt-equity) stood at negative 23.22 times as on March 31, 2022 as against negative 9.50 times as on March 31, 2021. Interest Coverage Ratio stood at 2.13 times for FY2022 as against 1.83 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.29 times for FY2022 as against 1.13 times for FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at negative 34.92 times as on March 31, 2022 as against negative 12.53 times as on March 31, 2021. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.12 times for FY2022 as against 0.10 times for FY2021.

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

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.

Rating Sensitivities

- Maintaining and improving the scale of operations and profitability margins leading to improvement in overall financial risk profile.
- Elongation of working capital cycle.
- Ability to improve financial risk profile.

Material covenants

None.

Liquidity Position

Adequate

The company has adequate liquidity marked by adequate net cash accruals to repay its maturing debt obligations. The company generated sufficient net cash accruals of Rs.25.04-Rs.48.30 crore during FY2020-22 against the maturing debt obligation is Rs.26.00-Rs.56.14 crore during the same period. The company is however expected to generate NCA of Rs.60 Cr - Rs.82 Cr in the period FY2023 - FY2024 against repayment obligations of Rs.26.12 Cr- Rs. 40.67 Cr in the same tenure. The company's working capital operation stood intensive marked by GCA days of 285 days in FY2022 as against 184 days in FY2021. The company maintains an unencumbered cash and bank balances of Rs.0.72 crore as on March 31, 2022. The current ratio of the company stood low at 0.64 times as on March 31, 2022, as against 0.54 times as on March 31, 2021. The average bank limit utilization stood moderate at around 67 percent for the last 6 months ended January 2023. Also, the debt repayments are timely serviced and there have been no instances of delays as confirmed by the lenders.

Acuité believes that the liquidity of SBSCPL is likely to remain adequate over the medium term on account of generating sufficient cash accruals against its debt obligations.

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 and working capital cycle. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	364.75	334.39
PAT	Rs. Cr.	17.65	9.96
PAT Margin	(%)	4.84	2.98
Total Debt/Tangible Net Worth	Times	(23.22)	(9.50)
PBDIT/Interest	Times	2.13	1.83

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

Not available

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
28 Feb 2022	Cash Credit	Long Term	15.00	ACUITE BB- Stable (Assigned)
	Proposed Bank Facility	Long Term	15.00	ACUITE BB- 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
Vijayapur DCC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE BB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

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