

Press Release

Kallappa Anna Awade Jawahar Shetkari Sahakari Sakhar Karkha Nalimited (Jawahar Shetkari Sahakari Sakhar Karkhana Limited)



December 19, 2022

Rating Reaffirmed

| Product | | | Short Term Rating |
|------------------------------------|-------|-----------------------------------|-------------------|
| Bank Loan Ratings | 18.00 | ACUITE BBB- Stable Reaffirmed | - |
| Total Outstanding Quantum (Rs. Cr) | 18.00 | - | - |
| Total Withdrawn Quantum (Rs. Cr) | 0.00 | - | - |

Rating Rationale

ACUITE has reaffirmed the long term rating of **ACUITE BBB- (read as ACUITE triple B minus)** on the Rs.18 crore bank facility of Kallappa Anna Awade Jawahar Shetkari Sahakari Sakhar Karkhana Limited (KAJSSSKL). The outlook is 'Stable'

Rationale for Rating Reaffirmation

The rating reaffirmation is on account of stable operating and financial performance of KAJSSSKL marked by improved operating income albeit slight deterioration in margins and moderate financial risk profile. The operating income of the Society improved to Rs.958.06 crore in FY2022 as against revenue of Rs. 850.40 crore in FY2021 registering a growth of 12.66 percent YoY on back of higher realisations. The operating margins declined slightly to 6.67 percent in FY22 as against 7.72 percent in FY2021. The moderation was primarily due to increased employee costs borne during the period towards additional employee increment dues for past years. The financial risk profile of the entity continues to be moderate marked by moderate gearing position and debt protection metrics. Going forward, KAJSSSK's ability to improve its scale of operations while maintaining its profitability margins and timely execution of planned capex will remain key rating monitorable.

About the Company

Incorporated in 1990, Kolhapur based KAJSSSKL 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. KAJSSSKL is into production and selling of sugar and other by products like molasses, bagasse, phospo compost, etc. It has installed crushing capacity of 16000 TCD. It also has co-generation power plant with installed capacity of 27MW and runs HPCL's petrol pump, which is adjacent to the factory. It is promoted and managed by Shri. Manohar Gopal Joshi along with other members.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations in sugar industry

KAJSSSKL 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. KAJSSSKL, over the years has not only expanded its cane crushing capacity to 16,000 tons per day from ~1016 tons per day initially but has also built long-standing relationship with farmers. KAJSSSKL also undertakes programme like cane development through providing good quality seed on credit, fertilisers, and offers guidance to farmers for modern farming, training for cultivation, etc. The good relationship with farmers enables KAJSSSKL in adequate and timely procurement of cane.

Higher sugar recovery and in-house co-generation facility

KAJSSSKL has its facility in Kolhapur, Maharashtra, which is one of the good sugarcane areas in the country with favourable soil and agro-climatic condition. Thus, availability of good quality sugarcane is resulting in higher sugar recovery for KAJSSSKL marked by its average recovery rate of over 12 per cent in the last two financial years ending March 31, 2022. This apart, the society's co-generation unit, with installed capacity of 27MW takes care of the power requirement of KAJSSSKL and the surplus 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.

KAJSSSKL's operating income in FY22 increased by 12.66 per cent to Rs.958.06 crore as against Rs.850.40 crore in FY2021 on account of higher realisations. The operating margin of the Society recorded a slight deterioration as it stood at 6.67 percent in FY2022 against 7.72 percent in FY2021. The decline in margin is on account of increase in employees cost in FY22 as the company compensated employees and workers for increment dues pending for past years. PAT margins were maintained at FY2021 levels as it stood at 0.07 percent in FY2022.

Moderate financial risk profile

KAJSSSKL has a moderate financial risk profile marked by moderate gearing position and debt-protection metrics. The society's net worth, as on March 31, 2022 stood at Rs.186.73 crore against Rs.175.55 crore as on March 31, 2021. Debt to equity ratio is maintained at 2.76 times as on March 31, 2022, as well as on March 31, 2021. Total debt as of March 2022 comprises of long-term loan of Rs.89.16 crore and short-term loan of Rs.427.13 crore. TOL/TNW as on March 31, 2022, was at 3.96 times as against at 4 times as on March 31, 2021. Interest coverage ratio stood at 1.35 times in FY2022 as against 1.27 times in FY2021, while DSCR declined and remained below unity due to higher debt repayment obligations at 0.47 times in FY2022 as against 0.89 times in FY21. Going ahead, DSCR is expected to improve to above unity due to lesser debt repayment obligations.

KAJSSSKL plans to install a distillery facility for ethanol production with 100 KLPD generation capacity over the medium term. The estimated project cost is Rs.150 crore which will be largely debt funded. The project is currently at planning stage, with required approvals from the government departments awaited.

Weaknesses

Working capital intensive operations

KAJSSSKL has intensive working capital operations marked by GCA days of 279 days in FY2022 as against 309 days in FY2021. GCA days are driven by high inventory level, which stood at 274 days for FY22 against 294 days for FY21. Given the seasonal nature of the sugar industry, inventory level is high during the peak season, which is November to April. Bank Limit utilisation is also maximum during the peak months of November to April. Average Bank limit utilisation is 35 percent for last 7 months ending October, 2022. Debtor days stood at 4 days in FY2022 as against 23 days in FY2021. Majority of the sales transactions are undertaken on cash and carry basis. Creditor days stood at 19 days in FY2022 as against 30 days in FY2021.

Acuite believes that working capital operations will remain intensive over the medium term on account of high inventory holding period.

Cyclical and regulated nature of sugar industry

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

ESG Factors Relevant for Rating

Issues such as water usage and efficiency along with waste disposal, releasing air impurities and energy intensive production process are some environmental issues relevant to Sugar Industry. On the Social front, safety and well-being of the employees and member farmers is the foremost material issue the companies in this industry. Strict adherence to government interventions and policy frameworks are key governance issues.

KAJSSSKL has installed requisite modern machinery, equipment and devices at various departments to check pollution. Society has also been conferred with awards in the past for its work on environment control front. On the social front, KAJSSSKL undertakes cane development programmes under which farmer members are provided with good quality seeds, fertilisers at subsidised costs, credit extension and medical aid to cane grower members and employees is provided.

Rating Sensitivities

- Further deterioration in operating profit margin
- Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

KAJSSSKL has adequate liquidity position marked by lower bank limit utilisation of ~35 percent for last 7 months ended October 2022. Current ratio of KAJSSSKL stood at a moderate level of 1.35 times as on March 31, 2022. KAJSSSKL generated cash accruals of Rs.14.83 crore in FY2022 compared to debt repayment of Rs.79.97 crore (Covid 19 loan and Soft Loan). Though net cash accruals were lower than term loan repayment, liquidity support through government subsidy, deposits from customers/members and earmarked account for repayment of soft loans along with realisations from sugar offered comfort. Going ahead, cash accruals of the company are estimated in the range of ~Rs.15.27-17.58 crore during FY23 to FY24 against debt repayment of Rs. 8.58-9.39crore during the same period.

Outlook: Stable

Acuite believes that KAJSSSKL 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.

Other Factors affecting Rating

None

Key Financials

| Particulars | Unit | FY 22 (Actual) | FY 21 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 958.06 | 850.40 |
| PAT | Rs. Cr. | 0.69 | 0.56 |
| PAT Margin | (%) | 0.07 | 0.07 |
| Total Debt/Tangible Net Worth | Times | 2.76 | 2.76 |
| PBDIT/Interest | Times | 1.35 | 1.27 |

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

ICRA vide its press release dated October 20,2022 has mentioned JSSSKL's rating as ICRA B+ Issuer Not Cooperating.

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, Acuite 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 |
|-------------|--------------------------------|-----------|-----------------|---------------------------------|
| 29 Oct 2021 | Cash Credit | Long Term | 18.00 | ACUITE BBB- 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 |
|---------------|----------------|-------------|------------------|----------------|----------------|------------------|-------------------|--------------------------------------------|
| Bank of India | Not Applicable | Cash Credit | Not Applicable | Not Applicable | Not Applicable | Simple | 18.00 | ACUITE BBB- Stable Reaffirmed |

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About Acuité Ratings & Research

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