

Press Release

KALLAPPA NNA AWADE JAWAHAR SHETKARI SAHAKARI SAKHAR KARKHANA LIMITED (ERSTWHILE JAWAHAR SHETKARI SAHAKARI SAKHAR KARKHANA)
January 05, 2024



Product	Rating Assigned (Rs. Cr)	Long Term Rating and Reaffirmed	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	600.00	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	650.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of **Acuite BBB-(read as Acuite triple B minus)** on the Rs.600.00 Cr bank loan facilities and assigned long term rating of **Acuite BBB- (read as Acuite triple B minus)** on the Rs.50.00 Cr bank facilities of Kallappanna Awade Jawahar Shetkari Sahakari Sakhar Karkhana Limited (KAJSSSKL). The outlook is 'Stable'.

Rationale for rating reaffirmation and assignment

The rating reaffirmation takes into account the stable operating and financial performance of the society albeit decline in net value of sugar and other by products production. The production value stood at Rs.889.15 Cr in FY2023 as against Rs.958.06 Cr in FY2022. The decline is primarily an outcome of decreased closing stock value in FY2023. Further, the operating margins remained ranged bound as they stood at 6.27% in FY2023 as against 6.67% in FY2022. The society maintained moderate financial risk profile with moderate gearing levels and debt-protection metrics. The gearing levels stood at 2.62 times in FY2023 against 2.76 times in the previous fiscal. Going ahead, gearing levels are expected to increase marginally on account of debt-funded capital expenditure over the medium term.

The rating also takes into consideration strong relationships developed with member farmers ensuring timely procurement of cane, strengthening forward integration into power and distillery operations, high sugar recovery above 12 % consistently over last three years. The rating is however constrained due to working capital intensive nature of operations with high GCA days and high reliance on working capital limits.

Going ahead, KAJSSSK's ability to sustain the growth in its scale of operations while improving its profitability margins and timely execution of planned capex while avoiding any significant moderation in the financial risk profile will remain a key rating monitorable.

About the Company

Incorporated in 1990, Kolhapur based KAJSSSKL was registered under the Maharashtra Cooperative Societies Act 1960 in January 1990 and its status was changed to a 'Multi-State Cooperative 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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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 longstanding 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 over the last three years. 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 byproducts such as molasses, bagasse, etc. are sold to the outside market, which supports the overall revenue of the company.

KAJSSSKL's total value of sugar and other by products production stood at Rs.889.15 crore in FY2023 registering a deterioration of ~7.19 percent compared to Rs.958.06 crore in FY2022. The decline is primarily an outcome of decreased closing stock value in FY2023. The product sale volumes and realisation values both recorded an improvement in FY2023.

Moderate financial risk profile

KAJSSSKL has a moderate financial risk profile marked by moderate gearing and debt-protection metrics. The society's net worth, as on March 31, 2023, stood at Rs.175.40 crore against Rs.186.73 crore as on March 31, 2022. The decline in net-worth is due to reduction in unforeseen expenses fund by Rs.15.47 Cr. Debt to equity ratio stood moderate at 2.62 times as on March 31, 2023 against 2.76 times in the previous fiscal. Total debt as of March 2023 stood at Rs.459.14 crore comprising of long-term loan of Rs.81.33 crore and short-term loan of Rs.377.81 crore. TOL/TNW, as on March 31, 2023, was at 3.84 times as against at 3.96 times as on March 31, 2022. Interest coverage ratio stood at 1.39 times in FY2023 as against 1.35 times in FY2022, and DSCR stood at 1.14 times in FY2023 as against 0.48 times in FY2022. Going forward, company plans to install a distillery facility for ethanol production with 100 KLPD generation capacity as government also has started to divert cane for ethanol production in accordance with the bio-fuels policy for achieving ethanol blending target of 20% in petrol by 2025-26. Also, it helps sugar companies to make up for the margins lost to volatile nature of sugar industry. The estimated project cost is Rs.163.03 crore and will take ~18 months for completion. Project will be funded by debt and equity in the ratio of 90:10. Society has got the debt tie-up with National Cooperative Development Corporation (NCDC).

Weaknesses

Working capital intensive operations

KAJSSSKL's working capital operations are intensive in nature marked GCA days of 261 days in FY2023 as against 279 days in FY2022. GCA days are driven by high inventory holding period, which stood at 238 days for FY2023 against 277 days for FY2022. 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 93% for last 6 months ending September,2023. Company deals with its customers on immediate payment basis, no credit is extended to them. Company only extends credit to the members farmers under their cane development programme for

purchase of seeds, fertilisers, and other essentials. Debtor days stood at 06 days in FY2023 as against 04 days in FY2022. Creditor days stood at 15 days in FY2023 as against 19 days in FY2022. Creditor days comprises of farmer dues for the cane that are repaid usually within a month's time.

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.

Liquidity Position

Adequate

KAJSSSKL has adequate liquidity position. KAJSSSKL generated sufficient cash accruals of Rs.16.32 crore compared to debt repayment of Rs.9.39 crore. Current ratio of JSSSKL stood at a moderate level of 1.29 times as on March 31, 2023 against 1.35 times in the previous fiscal. Going ahead, cash accruals of the company are estimated in the range of ~Rs.21.49-30.94 crore during FY24 to FY25 against debt repayment of Rs. 3.91-30.81 crore during the same period. The society draws comfort from the ability to generate funds through member deposits.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	889.15	958.06
PAT	Rs. Cr.	0.32	0.69
PAT Margin	(%)	0.04	0.07
Total Debt/Tangible Net Worth	Times	2.62	2.76
PBDIT/Interest	Times	1.39	1.35

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>
- Entities In Manufacturing Sector:- <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
05 Jan 2023	Cash Credit	Long Term	182.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	100.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	200.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	100.00	ACUITE BBB- Stable (Assigned)
19 Dec 2022	Cash Credit	Long Term	18.00	ACUITE BBB- Stable (Reaffirmed)
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
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE BBB- Stable Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	200.00	ACUITE BBB- Stable Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	68.67	ACUITE BBB- Stable Reaffirmed
Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	25.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	6.33	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	50.00	ACUITE BBB- Stable Assigned

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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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