

## Press Release

Vishwasrao Naik Sahakari Sakhar Karkhana Limited

January 02, 2023

## Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.50	ACUITE BB   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	7.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has assigned the long-term rating of **ACUITE BB (read as ACUITE double B)** to the Rs.7.50 crore bank facilities of Vishwasrao Naik Sahakari Sakhar Karkhana Limited (VNSSK). The outlook is **'stable'**.

### Rationale for rating assigned

The rating assigned takes into account established track of operations of the society for more than four decades in the sugar industry and a forward integration into cogeneration, which produces power from bagasse with a capacity of 15MW. The society also has a petrol pump, distillery of 50KLPD and an ethanol plant of 30KLPD. The rating also factors the moderate financial risk profile. The rating, however, is constrained by stretched liquidity, working capital intensive nature of operations and cyclical and regulated nature of the sugar industry. Going forward, VNSSK'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

Vishwasrao Naik Sahakari Sakhar Karkhana Limited (VNSSK) is based out of Sangli and was incorporated in 1972. The society currently operates a 5000 TCD sugar plant and is engaged in manufacturing and selling of sugar. The plant is also forward integrated with a cogeneration unit of 15MW capacity. The society also owns a petrol pump, a distillery unit of 50KLPD and an ethanol plant of 30KLPD. The society is managed by its members with Shri. Amol Ashokrao Patil as its managing director.

### Analytical Approach

Acuite has considered the standalone approach of the business risk and financial risk profile of the company to arrive at the rating

### Key Rating Drivers

## Strengths

### Established track record of operations in sugar industry

VNSSK was incorporated in 1972 reflecting an established track record of operations in the sugar industry for more than four decades. The society is managed and operated by members who have experience in the industry for more than two decades which has enabled the society to maintain long term relationship of more than ten years with farmers as well as with the customers.

Furthermore, the society has done forward integration into cogeneration and distillery operations that de-risk the core sugar business of the society to some extent. VNSSK operates a 5000 tonne crushed per day (TCD) sugar plant in Sangli, which is forward integrated into power with bagasse-based cogeneration power plant with capacity of 15 megawatt (MW) and distillery with capacity of 50 kilo litre per day (KLPD) in FY2022 and an ethanol plant of 30KLPD.

### Moderate Financial Risk Profile

VNSSK has a moderate financial risk profile with moderate gearing, net worth and coverage ratios. The net worth of the society stood at Rs.218.25 crore in FY2022 as against Rs.210.90 crore in FY2021 and Rs.201.64 crore in FY2020. The gearing of the society stood at 1.35 times in FY2022 as against 1.46 times in FY2021 and 1.41 times in FY2020. The interest coverage ratio stood at 1.21 times for FY2022 as against 1.26 times for FY2021 and 1.39 times in FY2020. The total debt outstanding of Rs.294.34 crore as on March 31, 2022 includes working capital borrowings of Rs.235.48 crore and term loan obligations of Rs.58.86 crore.

VNSSK is planning an expansion of the distillery unit to 75KLPD from 30KLPD. The total cost of the project is Rs. 100.94 crore, which will be funded vide debt of Rs. 89.56 Cr and Rs.11.38 Cr vide internal accruals and member deposits, The funding tie up for the project is complete and the construction is expected to commence from April, 2023 onwards.

Acuite believes that the financial risk profile of the society will continue to remain moderate in view of the planned capex. However, timely completion of the project without significant cost overruns will be a key rating monitorable.

## Weaknesses

### Working Capital Intensive Nature of operations

The operations of the society are of working capital-intensive in nature, marked by high GCA days of 331 days in FY2022 as against 442 days in FY2021 and 375 days in FY2020. The high GCA days are on account of high inventory days of 329 days in FY2022 as against 471 days in FY2021 and 412 days in FY2020. The sugar cane procurement is generally higher by March, 2022, hence, the inventory levels tend to be higher across the industry during financial year ends. The debtor days are low and stood at 16 days in FY2022 as against 20 days in FY2021 and in FY2020. The creditor days stood at 63 days in FY2022 as against 128 days in FY2021 and 94 days in FY2020. The average utilisation of working capital limits is around 92.63% based on the drawing power for fourteen months ended October 2022

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.

## Rating Sensitivities

- Further deterioration in operating profit margins.
- Elongation of working capital cycle.
- Timely completion of the project.

## Material covenants

None

## Liquidity Position Stretched

The liquidity position of the society is stretched marked by moderate net cash accruals and high bank limit utilisation. The society generated net cash accrual of Rs.4.53 crore in FY2022 against the maturing debt obligations of Rs. 19.38 crore (includes soft loan). The society is expected to generate net cash accruals in the range of Rs.6.01 crore – Rs.11.06 crore and the matured debt obligations in the range of Rs.11.66-21.62 crore. Though net cash accruals were lower than term loan repayment, liquidity support through deposits from customers/members and earmarked account for repayment of soft loans along with realisations from sugar offered comfort. The average utilisation of working capital limits is high around 92.63% based on the drawing power for fourteen months ended October 2022. The current ratio stood at 0.87 times as on March 31, 2022.

## Outlook: Stable

Acuite believes that VNSSK will maintain a 'stable' outlook in the medium term and will continue to benefit from its experience management and moderate financial risk profile over the medium term. The outlook may be revised to 'Positive', if the society demonstrates substantial and sustained growth in its revenues and/or operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if society generates lower-than-anticipated cash accruals thereby impacting its financial risk profile, particularly its liquidity.

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	298.42	242.26
PAT	Rs. Cr.	0.33	0.12
PAT Margin	(%)	0.11	0.05
Total Debt/Tangible Net Worth	Times	1.35	1.46
PBDIT/Interest	Times	1.21	1.26

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

Crisil vide its press release dated 18.07.2022, reaffirmed the company to CRISIL B-; INC.  
ICRA vide its press release dated 20.04.2022, reaffirmed the company to ICRA B+; INC.

## 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](http://www.acuite.in).

## Rating History:

Not Applicable

## 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	Working Capital Term Loan	Not available	Not available	Not available	Simple	7.50	ACUITE BB   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Vaishnavi Deshpande Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:vaishnavi.deshpande@acuite.in">vaishnavi.deshpande@acuite.in</a>	

### 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.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.