

Press Release

Bhairavnath Sugar Works Limited

April 11, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	427.00	ACUITE BB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	427.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB-**' (read as **ACUITE Double B minus**) on the Rs.427.00 Cr bank facilities of Bhairavnath Sugar Works Limited (BSWL). The outlook is '**Stable**'.

Rationale for Rating

The rating takes into account the established track record of operations of the company in the sugar and distillery business and integrated nature of operations. Further, the rating factors in the growth in scale of operations in FY 22 and YTD till February 2023 with a revenue of Rs 751.67 Cr and Rs 959.52 Cr respectively. However, these strengths are partially offset by the below-average financial risk profile, working capital intensive nature of operations and susceptibility to regulatory changes and fluctuations in sugar prices.

About the Company

Bhairavnath Sugar Works Limited (BSWL) was incorporated in the year 2000 in Pune, Maharashtra. The Company has started its business under the Dynamic Leadership of Dr. Tanaji Jayawant Sawant and his Professional Team. The company pioneers in manufacturing of sugar and allied products. In addition to sugar manufacturing, BSWL also has facility for co-generation and selling of power.

Analytical Approach

Acuite has considered the standalone approach of Bhairavnath Sugar Works Limited to arrive at this rating.

Key Rating Drivers

Strengths

Long operating track record and established presence in the sugar business and distillery industry

Bhairavnath Sugar Works Limited (BSWL) was incorporated in 2000 as Public Limited (Unlisted) company promoted by Mr. Tanaji Jayawant Sawant (Chairman) who has almost two decades of experience in sugar manufacturing industry. The promoters have gained good insight about the industry over the years and have developed healthy customer and supplier's relations. The promoter has a long-standing experience in the sugar industry and wide acceptance among local farmers, which facilitates adequate and timely cane

procurement, ensuring an adequate crushing period. Established relationships with farmers in its command area, along with various support initiatives and timely payments, ensures good quality supply. Acuité believes that the company will continue to benefit from its promoter's extensive experience in the sugar industry.

Growth in the scale of operations

The company has reported revenue of Rs.751.67 Crore in FY22 against Rs.351.93 Crore in FY21 and Rs 518.46 Cr in FY20. The growth in scale of operations had muted in FY21 on an account of an impact of drought in the same year resulted into lower crushing. In FY22, the company has registered growth in revenue by 114% on an account of growth in production capacity to 108.36% in FY22 against 93.84% in FY21. However, the EBITDA margins of the company is bended on lower side due to high input cost in FY22 and stood at 7.42% in FY22 against 19.56% in FY21. However, the PAT margins of the company have shown slight improvement which stood at 1.43% in FY22 against 0.49% in FY21. The company has achieved a revenue of Rs.959.52 Crore till February 2023. Acuité believes the revenue and EBITDA margins may continue to remain stable over the medium term.

Weaknesses

Working capital intensive operations

The working capital operations of the company are intensive marked by GCA days of 370 days in FY22 against 672 days in FY21. There is an improvement in GCA days on an account of inventory days which were high in FY21 due to muted operations on an account of pandemic and drought in the same year. The inventory days of the company stood at 282 days in FY22 against 577 days in FY21. Since sugar is an agro-based commodity (with sugarcane crushed mainly during November to April), sugarcane has to be crushed within a day or two of its arrival in the mills. Hence, the sugar inventory is piled up during the crushing season and gradually released till the commencement of the next crushing season, resulting into high inventory carrying cost and requirement of high working capital. Gradually, the inventory declines and reaches a minimum by the end of September or October. In addition, the debtor days of the company stood at 11 days in FY22 as against 21 days in FY21. On the other hand, the creditor days of the company stood at 89 days in FY22 against 165 days in FY21. Acuite believes that working capital operations of the company may continue to remain intensive considering the seasonal nature of sugar industry.

Below-average financial risk profile

The financial risk profile of the company is below average marked by moderate net worth, high gearing and below unity coverage indicators. The net worth stood moderate at Rs.96.29 Crore in FY22 against Rs.86.05 Crore in FY21. The improvement was on account of accretion of profits to reserves. The financial reflects the weak credit metrics due to high debt level of Rs.574.70 Crore in FY22 and Rs.601.84 Crore in FY21. The gearing ratio of the company stood high at 5.97 times in FY22 against 6.99 times in FY21. The interest coverage ratio of the company stood 2.43 times in FY22 against 1.99 times in FY21. Further, DSCR ratio of the company stood below unity at 0.80 times in FY22 against 0.99 times in FY21 and TOL/TNW ratio stood at 10.57 times in FY22 as against 10.99 times in FY21. In the near term, company is not planning to take additional loans. Acuité believes that the financial risk profile of the company may improve over the medium term on account of expected improvement in operating performance and in absence of any debt-funded capex plan.

Cyclicality associated with sugar industry

The company is engaged in sugar industry which is dependent on sugarcane production which is highly dependent on monsoon and realizations in alternative crops such as rice and wheat, which may prompt farmers to switch to sowing other crops. The particular sector is also marked by the presence of several mid to big size players which led to intense competition from the other players in the sectors.

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. Furthermore, releasing air impurities and energy intensive production process are some complex issues. The company is taking care of all the measures related to toxic gases spreading in the environment. Further, product quality and safety is of primary importance to the manufacture of food industry. Additionally, raw materials procurement, health and safety certifications is of utmost significance considering the nature of the industry and Governance factors albeit important have lower significance to this industry in comparison to social and environmental issues.

Factors such as ethical business practices, management and board administration hold primary importance in manufacture of food industry. Likewise, shareholder's rights and compliance regulations are other material issues to the industry. The company is taking all the measures to eliminate unwanted factors in the industry and for the sustainable development.

Rating Sensitivities

- Improvement in the operating performance and profitability margins.
- Deterioration in working capital cycle and financial risk profile.

Material covenants

None.

Liquidity Position Stretched

The liquidity profile of the company is stretched. The company has generated net cash accrual of Rs.51.00 Crore in FY22 against the debt repayment obligations of Rs.73.21 Crore. However, the shortfall has been repaid by the liquid funds available of Rs.26.07 Crore in FY22. Going forward, the company is estimated to achieve net cash accruals of Rs.58.07 Crore in FY23 against debt repayment obligations of Rs.49.90 Crore in the same period. The current ratio of the company stood at 1.02 times in FY22 as against 0.97 times in FY21. The average bank limit utilisation of the company stood at 42% in last 12 months ending December 2022.

Outlook: Stable

Acuite believes that company will continue to benefit over the medium term due to its established market position, established relations with its customers and suppliers and diversified product portfolio. The outlook may be revised to 'Positive', if the company demonstrates substantial growth in its revenues and operating margins from the current levels while maintaining / improving its working capital operation. Conversely, the outlook may be revised to 'Negative', if company generates lower-than-anticipated Operating income, profitability margins or further stretch in its working capital cycle there by 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.	751.67	351.93
PAT	Rs. Cr.	10.74	1.74
PAT Margin	(%)	1.43	0.49
Total Debt/Tangible Net Worth	Times	5.97	6.99
PBDIT/Interest	Times	2.43	1.99

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:

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
Maharashtra State Cooperative Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	234.00	ACUITE BB- Stable Assigned
The Kalyan Janata Sahakari Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	21.00	ACUITE BB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.15	ACUITE BB- Stable Assigned
Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.26	ACUITE BB- Stable Assigned
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.45	ACUITE BB- Stable Assigned
Mumbai District Central Co-Op Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	48.92	ACUITE BB- Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	10.38	ACUITE BB- Stable Assigned

Sindhudurg District Central Co-operative Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	45.00	ACUITE BB- Stable Assigned
Solapur District Central Cooperative Bank Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.00	ACUITE BB- Stable Assigned
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	52.84	ACUITE BB- 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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