



Press Release
PURNA SAHAKARI SAKHAR KARKHANA LIMITED
January 10, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	95.50	ACUITE BB Stable Assigned	-
Bank Loan Ratings	28.50	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	124.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BB**' (read as **ACUITE Double B**) on the Rs.95.50 crore and short term rating of '**ACUITE A4+**' (read as **ACUITE A Four Plus**) on the Rs.28.50 crore bank facility of Purna Sahakari Sakhar Karkhana Limited (PSSKL). The outlook is '**Stable**'

Rationale for Rating Assigned

The rating assigned is on account of stable operating performance of PSSKL marked by marginal improvement in operating income and operating profit margin. The operating income of the company improved to Rs.291.84 crore in FY2023 as against revenue of Rs. 283.68 crore in FY2022 and Rs.227.98 crore in FY2021, registering a marginal growth of 2.88 percent YoY on back of higher realisations. Also, the operating margins showed marginal improvement of 6.83 percent in FY23 as against 6.57 percent in FY2022 and 3.56 percent in FY21. Further, the rating also takes into account experienced management and long standing relationship with farmers. However, the ratings are constrained by below average financial risk profile, intense working capital operations and stretched liquidity position of the company. Going forward, PSSKL'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

Hingoli Based, Purna Sahakari Sakhar Karkhana Limited was established in the year 1981 to undertake sugar and sugar related production and ethanol production. It is one of the pioneering co-operative Sugar factories in Marathwada region of Maharashtra, which was registered in the year 1970 under erstwhile MAHARASHTRA COOPERATIVE SOCIETY ACT 1960. It is promoted by Shri J.R.Dandegaonkar and Shri Sunil Kadam.

Unsupported Rating

Not Applicable

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations in sugar industry

PSSKL was incorporated in 1981 and manufactures sugar and by products such as molasses,

bagasse, phospo compost, etc. The promoters are into the sugar industry since past more than 3 decades. PSSKL has its cane crushing capacity of 2500 tons per day which is expected to be converted into 4000 tons per day going ahead. The company has also built longstanding relationship with farmers. PSSKL 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 PSSKL in adequate and timely procurement of cane.

Stable business risk profile with high sugar recovery and in-house co-generation facility

PSSKL has its facility in Hingoli (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 PSSKL marked by its average recovery rate of about 12 per cent in the FY2023. This apart, the society's co-generation unit, with installed capacity of 18.9 MW takes care of the power requirement of PSSKL and the surplus is exported 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. Also, the company has an ethanol plant of 30 KLPD in FY2023 which has already been enhanced to 60 KLPD in the current financial year i.e., FY2024.

PSSKL's operating income in FY23 increased by ~3 per cent to Rs.291.84 crore as against Rs.283.68 crore in FY2022 on account of higher realisations. The operating margin of the Society recorded a slight improvement as it stood at 6.83 percent in FY2023 against 6.57 percent in FY2022. Going ahead, PSSKL plans to add machineries and unit for sugar production with additional 1500 TCD over the medium term. Acuite believes that the revenues will continue to show positive growth over the medium term with increase in sugar production capacity.

Weaknesses

Below Average Financial risk profile

PSSKL has a below average financial risk profile marked by moderate net worth, high gearing (debt-equity) and moderate debt-protection metrics. The company's net worth, as on March 31, 2023, stood at Rs.39.56 crore against Rs.40.67 crore as on March 31, 2022. Debt to equity ratio is increased to 3.90 times as on March 31, 2023 as against 1.86 times as on March 31, 2022. Total debt as of March 2023 comprises of long-term loan of Rs.52.25 crore, short-term loan of Rs.81.08 crore, Rs.4.25 Cr of unsecured loans and Rs.16.55 of CPLTD. Furthermore, the company is incurring capex to the tune of Rs..29 towards increasing production capacity which is expected to be funded via debt and internal accruals. The TOL/TNW, as on March 31, 2023, was at 6.07 times as against at 4.56 times as on March 31, 2022. Interest coverage ratio stood at 2.56 times in FY2023 as against 2.46 times in FY2022, while DSCR stood at 1.47 times in FY2023 as against 2.46 times in FY22. The company has completed 8.35% of blending of ethanol till date and has target given by the central government to divert cane for ethanol production in accordance with the bio-fuels policy for achieving ethanol blending target of 15% in petrol by 2025. Also, it helps sugar companies to make up for the margins lost to volatile nature of sugar industry.

Acuite believes that the financial risk profile of the company will remain key monitorable factor going ahead.

Working capital intensive operations

PSSKL has intensive working capital operations marked GCA days of 235 days in FY2023 as against 187 days in FY2022. GCA days are driven by high inventory level, which stood at 157 days for FY23 against 104 days for FY22. Given the seasonal nature of the sugar industry, inventory level is high during the peak season, which is November to April. Further, the debtor days stood at 22 days in FY2023 as against 18 days in FY2022. The credit period allowed is 21 days, other than that the company deals in advance payment. Bank Limit utilisation is also maximum during the peak months of November to April. However, the average bank limit utilisation of the fund-based limits remains at 66% for last 09 months ending September, 2023.

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

- Improvement in business risk profile of the company
- Any further elongation in working capital cycle leading
- Timely completion of planned capex

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Liquidity Position Stretched

PSSKL has stretched liquidity position. PSSKL generated insufficient net cash accruals in the range of Rs.9.30-13.33 crore from FY2021-23 compared to debt repayment of Rs.6.37-16.55 crore in the same period. In addition, it is expected to generate insufficient cash accrual in the range of Rs.13.81-14.64 crore against the maturing repayment obligations of around Rs.18.59 crore over the medium term. However, the shortfall in repayment is met from company's cash and bank balance which stood at Rs.10.82 crore as on March 31, 2023. Also, the average bank limit utilisation for the fund-based limits is 66% for last 09 months ending September, 2023. The working capital management of the company is intensive marked by GCA days of 235 days in FY2023 as against 187 days in FY2022. The current ratio stands at 1.27 times as on March 31, 2023 as against 1.50 times as on March 31, 2022.

Outlook: Stable

Acuite believes that PSSKL would maintain 'stable' outlook on account of established track record of operations, experienced management and longstanding relationship with farmers. 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 financial risk profile of the company further deteriorates and generates lower than expected revenue and profitability.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	291.84	283.68
PAT	Rs. Cr.	3.39	7.81
PAT Margin	(%)	1.16	2.75
Total Debt/Tangible Net Worth	Times	3.90	1.86
PBDIT/Interest	Times	2.56	2.46

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

None

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	71.20	ACUITE BB Stable Assigned
Maharashtra State Cooperative Bank	Not Applicable	Short-term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	28.50	ACUITE A4+ Assigned
Maharashtra State Cooperative Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.04	ACUITE BB Stable Assigned
DCC Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	13.26	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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