



Press Release
SHARAD SAHAKARI SAKHAR KARKHANA LIMITED
June 18, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	151.00	ACUITE BB Stable Assigned	-
Bank Loan Ratings	20.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	171.00	-	-

Rating Rationale

Acuite has assigned the long-term rating to '**Acuite BB**' (read as **Acuite double B**) and the short term rating to **Acuite A4+** (read as **Acuite A four plus**) on the Rs. 171.00 crore bank facilities of Sharad Sahakari Sakhar Karkhana Limited (SSSKL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned considers the company's established track record of more than 2 decades in this line of business along with experienced management in the sugar industry. Further, the rating factors in the improvement in scale of operations Y-o-Y with operating income recorded at Rs. 351.05 crore in FY 2023 as against Rs. 305.77 crore in FY 2022 and Rs. 298.21 crore in FY 2021. However, the rating is constrained by the average financial risk profile and stretched liquidity position of the company. Also, the company operates with an intensive working capital operations nature marked by high GCA days of 199 in FY23 and a higher inventory cycle. The revenue achieved till November 2023 is Rs 178.84 crore. Further, the rating assigned also factors in the cyclical and regulated nature of the sugar industry with various government regulations in place.

About the Company

Sharad Sahakari Sakhar Karkhana Limited (SSSKL) is an integrated sugar factory registered under the Maharashtra Cooperative Societies Act 1960. SSSKL was incorporated in 1996 and has a plant in Hatkangale, Kolhapur, Maharashtra. The sugar division has an installed capacity of 2500 TCD. Also, it has a 13 MW captive power generation capacity, which it fuels using bagasse generated in the sugar production and 30 KLPD molasses-based ethanol plant (or distilleries).

Dr. Rajendra Patil is the Chairman and Mr. Thaba Appa Kamble is the Vice Chairman of SSSKL. Currently, the operations of the company are managed by Mr. B.A. Awati (Chief executive officer) and Mr. R B Patil (Chief accountant).

Unsupported Rating

Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SSSKL to arrive at the rating.

Key Rating Drivers

Strengths

Established track record of operations in the sugar industry

Incorporated in 1996, SSSKL is an integrated sugar manufacturing company located in the state of Maharashtra. The Company has a good track record of business operations of more than two decades which has enabled the management to gain an in-depth understanding of the market dynamics and cope with the latest technologies in the sugar industry. The experience of the management is also visible in the growing operations of the company. The sugar division has an installed capacity of 2500 TCD along with a 13 MW captive power generation capacity, which it fuels using bagasse generated in the sugar production and 30 KLPD molasses-based ethanol plant (or distilleries).

Acuite believes that SSSKL shall continue to benefit from the extensive experience of its promoters in the sugar industry.

Improvement in the scale of operations

The revenue from the sugar division accounted for 88.76% in FY 2023 as against 96.76% in FY2022, the revenue from the co-gen division accounted for 2.83% in FY 2023 as against 3.18% in FY2023 and the revenue from the distillery division accounted for 6.66% in FY2023. Further, the product sale volumes and realization values both recorded an improvement in FY2023.

The operating income of the company stood at Rs. 351.05 crore in FY2023 registering an increase of ~14.80 percent compared to revenue of Rs. 305.77 crore in FY2022. Up to November 2023, SSSKL has achieved net sales of Rs. 178.84 crore.

The operating margin of the company improved and stood at 7.74% in FY2023 against 5.65% in FY2022. The operating profit increased to Rs. 27.19 crore in FY2023 against Rs. 17.28 crore in FY2022. The increase in operating margin and operating profitability is on the account of operations of distillery commenced in October 2022 for manufacturing of ethanol which is a high margin product. Accordingly net profitability also significantly improved to Rs. 3.71 crore in FY2023 against Rs. 0.26 crore in FY2022.

Acuite believes that scale of operations of the company may continue to improve in medium term due to the commencement of operations in the distillery division.

Weaknesses

Intensive working capital operations

SSSKL's intensive working capital operations are marked high GCA days of 199 days in FY2023 as against 265 days in FY2022. GCA days are driven by a high inventory holding period, which stood at 198 days for FY2023 against 255 days for FY2022. Given the seasonal nature of the sugar industry, inventory levels are high during the peak season, which is November to April. Subsequently, the debtor's collection period stood at 15 days in FY2023 as against 17 days in FY2022. Furthermore, the creditor days stood at 46 days in FY2023 as against 52 days in FY2022.

Acuite believes that the working capital operations of the company may continue to remain in the same range in the near to medium term considering the nature of operations.

Average Financial Risk Profile

SSSKL has an average financial risk profile marked by a tangible net worth of Rs. 70.48 crore as on FY2023 as against Rs.66.91 crore as on FY2022. The company follows a moderately aggressive leverage policy as reflected in its gearing (Debt/Equity) level of 2.78 times as on FY2023 as against 3.41 times as on FY2022. The total debt outstanding of Rs.196.11 crore consists of working capital borrowings of Rs. 142.34 crore and long-term borrowings of Rs. 53.77 crore as on FY2023. The coverage ratios of the company are below average with an Interest Coverage Ratio (ICR) of 1.95 times for FY2023 against 1.18 times for FY2022. Further, the Debt Service Coverage Ratio (DSCR) stood at 0.69 times for FY2023 as against 1.18 times for FY2022. The total outside liabilities to tangible net worth (TOL/TNW) of the company stood at 3.84 times as on FY2023 as against 4.49 times as on FY2022. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at 0.07 times for FY2023 as against 0.01 times for FY2022.

Acuite believes that the financial risk profile may continue to remain average with higher reliance on bank borrowings coupled with moderate margins.

The cyclical and regulated nature of the sugar industry

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

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

- Ability to achieve significant improvement in the scale of operations and profitability margins.
- Any further increase in the debt levels of the company, leading to deterioration in the financial risk profile or liquidity of the company.

Liquidity Position

Stretched

SSSKL has a stretched liquidity position marked by net cash accruals of Rs.13.92 crore for repaying maturing debt obligation of Rs. 26.64 crore for FY 2023. However, it is expected to generate sufficient cash accrual in the range of Rs. 17-22 crore against the maturing repayment obligations of Rs. 13-16 crore over the medium term. Furthermore, the company maintains cash and bank balances of Rs.0.68 crore only as on March 31, 2023, and the current ratio also stood at 0.87 times as on FY 2023, as against 0.91 times as on FY 2022.

Outlook: Stable

Acuite believes that SSSKL will maintain 'stable' outlook over the medium term on account of established track record of operations and experienced management and growing scale of operations. However, the outlook may be revised to 'positive' in case of higher-than expected revenue growth and profit margins and efficient working capital management. Conversely, the outlook may be revised to 'negative' if the debt levels of the company further increases, affecting the 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.	351.05	305.77
PAT	Rs. Cr.	3.71	0.26
PAT Margin	(%)	1.06	0.09
Total Debt/Tangible Net Worth	Times	2.78	3.41
PBDIT/Interest	Times	1.95	1.18

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>
- 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 :

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 avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.50	ACUITE BB Stable Assigned
Maharashtra State Cooperative Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.50	ACUITE BB Stable Assigned
Maharashtra State Cooperative Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	140.00	ACUITE BB Stable Assigned
Maharashtra State Cooperative Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BB Stable Assigned
Maharashtra State Cooperative Bank	Not avl. / Not appl.	Short-term Loan	05 Jul 2023	Not avl. / Not appl.	30 Jun 2024	Simple	20.00	ACUITE A4+ 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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