



June 02, 2014

Proposed Facility	Amount (Rs. Crore)	Rating
Term Loan	131.29	SMERA BB-/Stable (Assigned)

SMERA has assigned a rating of **'SMERA BB-' (read as SMERA double B minus)** to the Rs.131.29 crore proposed bank facility of Sahakarmaharshi Bhausaheb Thorat Sahakari Sakhar Karkhana Limited (SBT). The outlook is **'Stable'**. The rating is supported by the society's long track record of operations and comfortable profit margins. The rating is also supported by the proximity of the society's manufacturing unit to raw material sourcing areas. The rating factors in the potential benefits the society is likely to derive from the co-generation power plant. However, the rating is constrained by the society's moderate operating scale, working capital-intensive operations and high gearing (debt-to-equity ratio). The rating is also constrained by the society's presence in a highly regulated sugar industry. The rating factors in risks associated with the proposed modernization and expansion of the society's existing sugarcane crushing capacity.

SBT, established in 1966, is a Maharashtra-based co-operative society engaged in manufacturing of sugar. SBT's operations have been profitable during the last seven years despite the inherent cyclicity in the sugar industry. The society reported comfortable net profit margin of 5.75 per cent in FY2012-13 (refers to financial year April 01 to March 31). Further, SBT has access to ample supply of raw material as the society's factory unit is in proximity to sugarcane growing regions (Ahmednagar and Nasik) in Maharashtra. SBT is likely to benefit from reduced power cost as the society plans to set up a 30 megawatt (MW) co-generation power plant adjacent to its existing factory unit.

SBT benefits from its experienced management. Mr. Balasaheb Thorat, director of SBT, has around three decades of experience in the sugar industry.

SBT's moderate operating scale is reflected in revenues of Rs.354.67 crore for FY2012-13. SBT's operations are working capital-intensive as the society holds high level of inventory in anticipation of higher price realization. SBT's working capital cycle is stretched at 244 days in FY2012-13. The society's gearing (debt-to-equity ratio) is high at 3.14 times as on March 31, 2013. SBT operates in an intensely regulated industry. The society's operations are susceptible to unfavourable changes in fair prices, exports regulations and other policies governing the sugar industry.

SBT plans to modernize its existing factory unit and increase the installed capacity from 3,500 tonnes crushed per day (TCD) to 5,000 TCD. The society also plans to set up a co-generation power plant with total capacity of 30 MW, of which ~11 MW of power is likely to be used for captive consumption and the remaining power will be sold to state electricity board. The total project cost (of modernization, expansion and co-generation power plant) is estimated at Rs.243.70 crore, which is likely to be funded through equity capital of Rs.22.19 crore, equity assistance of Rs.6.63 crore from Government of India, bank loan of Rs.131.29 crore and term loan of Rs.83.59 crore from Sugar Development Fund. The aforementioned project will be implemented at premises adjacent to the society's existing factory unit.

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SBT's regular operations are thus unlikely to be affected during project implementation, which is likely to be completed by September 2016.

Outlook: Stable

SMERA believes the outlook on SBT's rated facilities will remain stable over the medium term. The outlook may be revised to 'Positive' in case the society successfully implements the project according to the scheduled timeline. Conversely, the outlook may be revised to 'Negative' in case of delays in project execution.

About the society

SBT, established in 1966, is a Maharashtra-based co-operative society promoted by Mr. Balasaheb Thorat. SBT is engaged in manufacturing of sugar. The society has a factory unit in Sangamner, Ahmednagar district, Maharashtra.

For FY2012-13, SBT reported net profit of Rs.20.41 crore on operating income of Rs.354.67 crore, as compared with net profit of Rs.6.61 crore on operating income of Rs.330.497 crore for FY2011-12. Further, SBT registered net profit of Rs.19.47 crore (provisional) on revenue of Rs.328.20 crore (provisional) in FY2013-14. SBT's tangible net worth stood at Rs.53.83 crore as on March 31, 2013, as compared with Rs.32.54 crore a year earlier.

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