Jai Hind Sugar Private Limited

November 27, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	207.25 (enhanced from Rs. 194.25 crore)	IVR BBB-/ RWDI (IVR Triple B Minus under Rating Watch with Developing Implications)	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Reaffirmed and placed under Rating Watch with Developing Implications	Simple
Total	**207.25 (INR Two Hundred and Seven Crore and Twenty-Five Lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation in the rating assigned to the bank facilities of Jai Hind Sugar Private Limited (JHSPL) continues to derive strength from extensive experience of the promoters in the sugar industry. Further, the company enjoys access to alternative revenue streams from power co-generation and distillery operations, which provide cushion against the cyclicality of the sugar business. The rating also considers the improvement in its operating profit margin albeit moderation in revenue in FY24 [FY refers to the period from April 1 to March 31] and satisfactory operating performance in 5MFY25. Further, the rating also notes Government support in the form of subsidy, remunerative ethanol prices and interest subvention loans for the ethanol plant.

However, these rating strengths remain partially offset by the company's working capital intensive nature of operations along with moderate financial risk profile marked by leveraged capital structure and moderate debt protection metrics. The rating also considers the vulnerability to the risks associated with agro-climatic factors. Besides, the profitability of the company also remains vulnerable to the policies of both the Central and State Government regarding domestic quota, sugar and ethanol pricing and on international sugar trade pricing. Further, the rating is placed under rating watch with developing implications as the company's envisaged scale and profitability are susceptible to successful operating performance of

Gangapur unit with additional sugarcane crushing capacity of 2,000 TCD and ethanol production of 30 KLPD which is about to start its operation coupled with status of government subsidies to be received. Infomerics Ratings will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the same on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the revenues & profitability, leading to sustained improvement in the debt coverage indicators
- Improvement in working capital management leading to improvement in operating cycle and liquidity

Downward Factors

- Decline in profitability due to any company or industry related factors leading to deterioration in the debt coverage indicators
- Withdrawal of subordinated unsecured loan of Rs. 92.40 crore and/or any unplanned debt funded capex impacting the capital structure
- Elongated operating cycle impacting liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**
  The overall operations of JHSPL are looked after by the promoters – Mr. Bhaskar Mane and Mr. Ganesh Mane Deshmukh, who possess a total experience of over 37 years and 11 years, respectively in the sugar industry. Their long-standing experience has led the company to establish long-term relationships with its various customers, farmers, harvesting & transporting (H&T) contractors, and other stakeholders.
- **Improvement in operating profit margin albeit moderation in revenue in FY24**
  Total operating income of the company declined by ~38% on a y-o-y basis in FY24. However, despite the decline in total operating income, EBITDA Margin has improved from 13.26% in FY23 to 19.84% in FY24 benefiting from improvement in operating efficiency arising from integrated nature of operations. The decline in revenue in FY24 is mainly attributed to a dip in sugar sales following restrictions imposed by central government on sugar export. Further,

spirit sale was also affected after the government prohibited the use of sugarcane juice and sugar syrup for making ethanol. However, the Government lifted this restriction in August 2024. Besides, sugar sale in domestic market also marked a decline from ~Rs. 271 crore in FY23 to ~Rs. 209 crore in FY24 on account of reduction in number of sugarcanes crushed from 818848 MT in FY23 to 793507 MT in FY24 due to unfavourable climatic condition (excess and uneven rainfall). The total sugar supply had reduced from 940764 quintals in FY23 to 606468 quintals in FY24 due to ban on export of sugar and reduction in sugarcane availability. In 5MFY25, the company has achieved a revenue of Rs.161 crore with an EBITDA margin of 17.85%.

- **Integrated operations**

  The company derives benefit from its forward-integrated sugar plant, which comprises 120 KLPD distillery and 33.5 MW co-generation capacities. Ethanol produced from B-heavy molasses in the distillery unit is procured by the oil marketing companies (OMCs). JHSPL has signed a long-term power purchase agreement (PPA) with Maharashtra State Electricity Distribution Company Limited (MSEDCL) for both the co-generation units, thereby providing revenue visibility. For the first unit, the rate is Rs.6.27 per unit valid till October, 2028, and for the second unit, the rate is Rs.4.97 per unit valid till August, 2031. Further, the company has bought an additional sugar unit on lease in auction named M/s. Gangapur Sahakari Sakhar Karkhana Limited with an installed capacity of 2000 TCD and 30 KLPD distillery unit situated at Raghunath Nagar, Tal. Gangapur, Dist. Aurangabad, Maharashtra on a long lease basis for the period of 25 years through tender process. This is expected to support revenue and profitability growth.

- **Government subsidy**

  The Company became eligible for Mega Project under “Promotional Scheme of Incentive” with the investment of Rs.262.71 crore in installation of Ethanol Distillery Plant. Under the scheme, the Company will be eligible for refund of SGST collected up to Rs.262.71 crore during 10 years from the year of commissioning of ethanol plant which is from FY22 as a part of Industrial Promotion subsidy.

- **Government’s measures to support sugar industry**

  The Government has been supporting the sugar industry by way of various measures such as an introduction of MSP, interest subvention loans for ethanol expansion, soft loans for clearing cane dues, export subsidy and creation of sugar buffer stock to improve the demand-supply situation in the domestic market. Further, in global market sugar prices are touching new highs due to draught situation in Brazil which is one of the leading sugar producers in the world. The global supply mismatch is expected to push the domestic prices higher in the near term.

Key Rating Weaknesses

- **Working capital intensive nature of operations**

  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 higher working capital. The operating cycle of the company remained elongated and increased from 185 days in FY23 to 353 days in FY24.

- **Moderate financial risk profile marked by leveraged capital structure and moderate debt protection metrics**

  The tangible net worth of the company stood at Rs.169.97 crore as on March 31, 2024, after considering subordinate unsecured loan amounting to Rs.92.40 crore as quasi equity. Overall gearing ratio moderated from 2.40x as on March 31,2023 to 3.07x as on March 31, 2024, due to increase in debt level on account of higher working capital requirement. Total indebtedness of the company marked by TOL/ATNW also moderated to 4.18x as on March 31, 2024 against 3.04x as on March 31,2023. Interest coverage ratio stood moderate at 1.35x in FY24 compared to 1.36x in FY23.

- **Vulnerability to the risks associated with agro-climatic factors & government regulations**

  Sugarcane is a key input into the sugar manufacturing business. Sugarcane is a kharif crop, production of which highly depends on monsoons. Any adversity in the timeliness & adequacy of rainfall, given the highly uneven pattern of rainfall observed in the last few years, would drastically affect the availability and price of sugarcane, thereby affecting the profitability of the business. The sugar industry is exposed to risks related to government regulations. This makes its operating profitability susceptible to any policy measure announced by the government to support sugarcane producers and to keep the sugar prices in check. Hence, any vulnerability in the business due to the government regulations is likely to have a bearing on the company's operations. The industry is highly regulated with the inability of passing the increased raw material costs to buyers and lack of control over input prices.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity profile of the company is expected to remain adequate with gross cash accruals expected to be in range of Rs.48 crore to Rs.64 crore as against the expected debt repayments of Rs.35 crore to Rs.49 crore during FY25 to FY27. The average working capital utilisation for the past 12 months ending August 2024 remained satisfactory at ~77% which provides liquidity comfort to some extent. Also, liquidation of the sugar stock at remunerative realisations also remains crucial to the liquidity of the sugar mills. Further, the company has free Fixed Deposits of Rs.8.31 crore and liquid investment of Rs.26.43 crore as on June 30, 2024 which provides additional liquidity cushion.

About the Company

Incorporated in March 2006 as a private limited company by Mr. Bhaskar Mane, Jai Hind Sugar Private Limited (JHSPL) is engaged in the manufacturing of sugar and its by-products viz. molasses, ethanol, bagasse, press mud, etc. and co-generation of bagasse-based power. The manufacturing facility of the company is located at Achegaon in Solapur, Maharashtra, equipped with a sugarcane crushing installed capacity of 7,500 TCD, co-generation capacity of 33.5 MW and ethanol production of 120 KLPD. The overall operations of the company are looked after by Mr. Bhaskar Mane and Mr. Ganesh Mane Deshmukh.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	497.74	307.89
EBITDA	65.98	61.10
PAT	10.62	5.37

Total Debt	404.05	521.38
Tangible Net Worth (Adjusted)	168.14	169.97
EBITDA Margin (%)	13.26	19.84
PAT Margin (%)	2.10	1.74
Overall Gearing Ratio (x)	2.40	3.07
Interest Coverage (x)	1.36	1.35

* *Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA:

India Ratings has maintained the rating of JHSPL in the Issuer Non-Cooperating category as the company did not participate in the surveillance exercise, despite continuous requests and follow-ups as per the Press Release dated Oct 18, 2024.

Brickwork Ratings has maintained the rating of JHSPL in the Issuer Non-Cooperating category on account of continued lack of management cooperation, non-submission of NDS, and lack of banker's feedback as per the Press Release dated Oct 9, 2024.

Any other information: Nil

Rating History for last three years:

Sr. No	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years				
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2023-24**	**Date(s) & Rating(s) assigned in 2022-23**			**Date(s) & Rating(s) assigned in in 2021-22 -**
					Sep 25, 2023	**Oct 20, 2022**	**Jul 27, 2022**	**May 17, 2022**	**May 31, 2021**
1.	Term loans	LT	127.75	IVR BBB-/ RWDI	IVR BBB- / Stable	IVR BB+/ Stable	IVR BB+/ Stable	IVR D	IVR BB+/ Stable
2.	CC/ Pledge loans	LT	79.50	IVR BBB-/ RWDI	IVR BBB- / Stable	IVR BB+/ Stable	IVR BB+/ Stable	IVR D	IVR BB+/ Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loans	-	-	-	Nov 2035	127.75	IVR BBB-/ RWDI
CC/ Pledge loans	-	-	-	-	79.50	IVR BBB-/ RWDI
Total					**207.25**	

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Jai-Hind-Sugar-27nov24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.