Press Release

Jai Hind Sugar Private Limited (JHSPL)

May 17, 2022

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loan	194.41 (Reduced from 200.72)	IVR D	Revised	Simple
Long Term Fund Based Bank Facilities – Cash Credit	25.00 (Increased from 23.48)	IVR D	Revised	Simple
Total	**219.41 (Rupees Two Hundred and Nineteen Crore and Forty One Lakh Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the rating assigned to the bank facilities of JHSPL takes into account the intermittent delays in the debt servicing during last several months ended February 2022. Further, Infomerics also takes a note of the experienced promoters & funding support, healthy albeit fluctuating scale of operations & profit margins, successful completion of the distillery capital expenditure, power purchase agreement (PPA) for co-generation power plant providing long-term revenue visibility, leveraged capital structure albeit moderately weak debt coverage indicators, elongated cash conversion cycle and risks related to agro-climatic factors & government regulations.

Key Rating Sensitivities:

Upward Factors

- Continuous timely servicing of debt obligations for at least 90 days.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and funding support**

  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. Moreover, the promoters have been continuously supporting the company by way of unsecured loans to the tune of Rs.27.79 crore being added over FY18-FY21. As on March 31, 2021, the unsecured loans from promoters & relatives stood at Rs.78.91 crore, which have been considered as quasi equity.

- **Healthy albeit fluctuating scale of operations and profit margins**

  The scale of operations of JHSPL stood healthy, however kept fluctuating. The total operating income declined from Rs.221.97 crore in FY20 to Rs.206.29 crore in FY21 owing to decline in the revenues from molasses sales and electricity sales, owing to higher molasses stocked for captive consumption in the distillery, and low bagasse stock available for electricity generation. However, the total operating income increased to Rs.284.76 crore in 11MFY22 primarily owing to the commencement of operations of the distillery, coupled with increased revenues from sugar sales and electricity sales.

  The EBITDA margin of JHSPL stood healthy, however kept fluctuating. The EBITDA margin improved from 16.94% in FY20 to 23.42% in FY21 owing to decrease in material consumption on the back of increase in molasses stock coupled with high amount of export subsidy received in that year. However, such fluctuations in the material consumption are largely prevalent in the sugar industry. The EBITDA margin, however, deteriorated to 18.92% in 11MFY22 owing to increase in H&T expenses and mechanical repairs & maintenance. On the other hand, the PAT margin stood at 0.51% in FY21 as against 0.45% in FY20.

- **Incremental benefits from integrated nature of operations from successful completion of ongoing CAPEX**

  Earlier, JHSPL operated at 3,500 TCD of sugarcane crushing capacity and 18 MW of co-generation capacity. However, in October 2021, it has successfully commissioned the project of enhancing the sugarcane crushing capacity to 5,000 TCD and co-generation capacity to 36 MW, and setting up of a distillery of 45 KLPD of ethanol. This will enable the company to improve its revenue & profitability in the future, as evident from the performance in 11MFY22.

- **Power purchase agreement providing long-term revenue visibility**

  JHSPL has signed a long-term power purchase agreement (PPA) with MSEDCL for both the co-generation units, thereby providing long-term revenue visibility for the next decade. For the first unit, the rate is Rs.6.90 per unit valid till October 28, 2024, and for the second unit, the rate is Rs.4.97 per unit valid till January 16, 2033. The decline in the rate is owing to the decline in rates of the co-generation power all over.

Key Rating Weaknesses

- **Leveraged capital structure & moderately weak albeit improving debt coverage indicators**

  The capital structure of JHSPL stood leveraged with an overall gearing of 2.69 times as on March 31, 2020 and March 31, 2021 respectively, given moderately high reliance on term loans and working capital bank borrowings to fund the CAPEX and working capital requirements. Moreover, the overall gearing deteriorated marginally to 2.87 times as on February 28, 2022. On the other hand, the debt coverage indicators stood moderately weak with the total debt/GCA and interest coverage of 42.58 times and 0.80 times respectively in FY21 as against 41.53 times and 1.07 times respectively in FY20. However, given the improvement in the operating performance, the total debt/GCA and interest coverage improved to 19.99 times and 1.79 times respectively in 11MFY22.

- **Elongated cash conversion cycle**

  The inventory holding of JHSPL stood elongated at 396 days in FY21 as against 362 days in FY20, which is prevalent to the sugar industry, given the high amount of finished goods stock, whereas the elongation was owing to higher molasses stocked for captive consumption in the distillery. However, the inventory holding improved to 308 days in 11MFY22 owing to faster inventory turnaround on the back of increase in the scale of operations in that period. Moreover, the collection period also stood elongated at 77 days in 11MFY22 as against 109 days in FY21 and 84 days in FY20. On the other hand, a credit period of over 100-150 days is availed from the raw material suppliers. Given all of the above, the operating cycle or the cash conversion cycle stood elongated at 251 days in 11MFY22 as against 359 days in FY21 and 324 days in FY20. However, given the seasonal nature of operations, the average working capital utilization stood at 50.88% in the last 12 months ended March 2022, whereas the company is highly dependent on other types of loans viz. COVID-19 loans, basal dose loan, soft loans, etc. for funding its working capital requirements.

- **Risks related to 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 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)

Policy on Default Recognition

Liquidity – Poor

The liquidity position of JHSPL is poor, marked by defaults on its debt repayment obligations, wherein there had been intermittent delays in the debt servicing during past several months ended February 2022.

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 capacity of 5,000 TCD, co-generation capacity of 36 MW, and ethanol production of 45 KLPD. Earlier, the company operated at 3,500 TCD of sugarcane crushing capacity and 18 MW of co-generation capacity. However, in October 2021, it has commissioned a project of enhancing the sugarcane crushing capacity and co-generation capacity at the current levels, and setting up of a distillery. On the other hand, the corporate office of the company is located at Bhandarkar Road in Pune, Maharashtra, whereas 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-Mar-2020 (A) (Audited)	31-Mar-2021 (Audited)
Total Operating Income	221.97	206.29
EBITDA	37.60	48.30
PAT	1.01	1.06
Total Debt	331.71	362.14
Tangible Net worth	123.14	134.86
EBITDA Margin (%)	16.94	23.42
PAT Margin (%)	0.45	0.51
Overall Gearing Ratio (times)	2.69	2.69

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA:

Brickwork Ratings has continued to classified the rating of JHSPL into the Issuer Not Co-operating (INC) category as per the press release dated July 26, 2021.
India Ratings has continued to classified the rating of JHSPL into the Issuer Not Co-operating (INC) category as per the press release dated October 22, 2021.

Any other information: None

Rating History for last three years:

Sr. No.	**Name of Instrument/Facilities**	**Current Ratings (Year 2022-23)**			**Rating History for the past 3 years**		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2021-22 (May 31, 2021)**	**Date(s) & Rating(s) assigned in 2020-21**	**Date(s) & Rating(s) assigned in 2019-20 (January 31, 2020)**
1.	Term Loan	Long Term	194.41 (Reduced from 200.72)	IVR D	IVR BB+/ Stable	-	IVR BBB-/Positive
2.	Cash Credit	Long Term	25.00 (Increased from 23.48)	IVR D	IVR BB+/ Stable	-	IVR BBB-/Positive

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities – Term Loan	NA	NA	March 2035	194.41 (Reduced from 200.72)	IVR D
Long Term Fund Based Bank Facilities – Cash Credit	NA	NA	NA	25.00 (Increased from 23.48)	IVR D

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-jai-hind-sugar-may22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr. No.	Instrument	Complexity Indicator
1.	Term Loan	Simple
2.	Cash Credit	Simple

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