Press Release

Jai Hind Sugar Private Limited (JHSPL)

October 20, 2022

Ratings

Facilities	**Amount (Rs.crore)**	**Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Fund Based Bank Facilities – Term Loan	183.82 (Reduced from Rs.194.41 crore)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Long Term Fund Based Bank Facilities – Cash Credit	40.00 (Increased from Rs.25 crore)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Total	**223.82**	**Two Hundred Twenty-Three Crore and Eighty-Two Lakh only**		

Details of facilities are in Annexure 1

Detailed Rationale

The rating reaffirmation to the bank facilities of Jai hind Sugar Private Limited reflects majorly achievement of financial performance of FY22 as expected. Further, the rating continues to derive comfort from expected experienced promoters and funding support, healthy albeit fluctuating scale of operations and profit margins, incremental benefits from integrated nature of operations from successful completion of ongoing CAPEX, power purchase agreement providing long-term revenue visibility and government subsidy. The ratings are, however, constrained by leveraged capital structure & moderately weak albeit improving debt coverage indicators, elongated cash conversion cycle and risks related to agro-climatic factors & government regulations.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the revenues & profitability along with stabilization of operations of the newly commenced ethanol plant, leading to sustained improvement in the debt coverage indicators.

Downward Factors

- Decline in profitability due to any company or industry related factors leading to deterioration in the debt coverage indicators.

Detailed Description of Key Rating Drivers

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, 2022, the unsecured loans from promoters & relatives stood at Rs.93.29 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 of JHSPL increased significantly to Rs.316.15 in FY22(A) from Rs.189.27 crore in FY21(A), registering Y-o-Y growth of ~67%, primarily owing to commissioning of Ethanol Distillery Plant from October 30, 2021, which generated additional revenue of ~Rs.64 crore in FY22(A). Moreover, the revenues from sugar sales and electricity sales also increased in FY22(A) over FY21(A) on account of increase in sales volumes and realizations coupled with enhancement in the capacities. This can largely be attributable to the increase in sugarcane crushing in FY22(A) over FY21. The EBITDA margin of JHSPL decreased to 14.65% in

FY22(A) from 16.64% in FY21(A) owing to decrease in raw material consumption on the back of increase in stock levels during the year. However, such fluctuations in the raw material consumption are largely prevalent in the sugar industry. The reason for decline in EBITDA margin during the year is also due to a significant increase in the Harvesting & Transport Expenses and mechanical repairs & maintenance. Despite the deterioration in the EBITDA margin, the PAT margin improved to 1.72% in FY22(A) from 0.61% in FY21(A) owing to significant increase in operating revenue.

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 7,500 TCD and co-generation capacity to 33.5 MW, and setting up of a distillery of 100 KLPD of ethanol. This will enable the company to improve its revenue & profitability in the future, as evident from the performance in FY22.

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.

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 till total amount of Rs.262.71 crore within 10 years as part of Industrial Promotion subsidy.

Key Rating Weaknesses:

Leveraged capital structure & moderately weak albeit improving debt coverage indicators

The overall gearing stood increased to 6.25x as on March 31, 2021, as compared to 2.69x as on March 31, 2020. However, the overall gearing deteriorated marginally to 6.12x as on March 31, 2022, owing to COVID-19 loans availed, coupled with increase in unsecured loans from promoters & related parties to fund the CAPEX requirements in that period. Given the increase in debt levels in FY21, the debt coverage indicators also deteriorated marginally with the total debt/GCA and DSCR having deteriorated to 50.64x and 0.81x in FY21 from 41.53x and 1.07x respectively in FY20. However, total debt/GCA improved to 33.35x in FY22 due to improvement in GCA. The interest coverage improved to 1.20x in FY22 from 0.82x in FY21.

Elongated cash conversion cycle

The inventory holding of JHSPL elongated to 396 days in FY21 from 362 days in FY20 owing to increase in molasses stock and restoration of bagasse stock. However, such fluctuations in the inventory holding are largely prevalent in the sugar industry. However, the inventory holding improved to 318 days in FY22 owing to faster inventory turnaround on the back of increase in the scale of operations in that period. The collection period elongated marginally to 109 days in FY21 from 84 days in FY20, however improved to 72 days in FY22 owing to recovery of major receivables from a group company viz. Jai Hind Sugar Industries Private Limited. On the other hand, creditors' period elongated marginally to 146 days in FY21 from 122 days in FY20, however shortened to 126 days in FY22. Given all of the above, the operating cycle elongated to 360 days in FY21 from 324 days in FY20, however improved to 264 days in FY22.

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)

Criteria on Rating Outlook

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate marked by steady improvement in its revenue in FY23 backed by steady demand of sugar and improvement in sugar realisations. Further, the company is having average cash credit limit utilisations at ~92.09% in the past 12 months ended August, 2022 indicating adequate liquidity buffer. The current ratio is expected to remain above unity at 1.17x in FY23. The Company has Cash and Cash equivalents of Rs.27.17 crore as on March 31, 2022. Further, the Company achieved total operating revenue of Rs.93.14 crore in Q1FY23 (Q1FY22: Rs.40.67 crore), registering Y-o-Y growth of ~129%.

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 7,500 TCD, co-generation capacity of 33.5 MW, and ethanol production of 100 KLPD. Earlier, the company operated at 5,000 TCD of sugarcane crushing capacity and 18 MW of co-generation capacity and ethanol production of 45 KLPD. 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 plant. The corporate office of the company is located at Bhandarkar Road in Pune, Maharashtra, and the overall operations of the company are looked after by Mr. Bhaskar Mane and Mr. Ganesh Mane Deshmukh.

(INR Crore)

For the year ended* As on	31-03-2021	31-03-2022
	Audited	**Audited**
Total Operating Income	189.27	316.15
EBITDA	31.49	46.33
PAT	1.26	5.63
Total Debt	362.14	460.41
Tangible Net Worth	134.86	154.87
Ratios		
EBITDA Margin (%)	16.64	14.65
PAT Margin (%)	0.61	1.72
Overall Gearing Ratio (x)	2.69	2.97

* *Classification as per Infomerics' standards*

Status of Non-cooperation with previous CRA: N.A.

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	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)
				Current Ratings	(July 27, 2022)	(May 17, 2022)			
1.	Fund Based Bank Facilities – Term Loan	Long Term	183.82	IVR BB+ /Stable	IVR BB+ /Stable	IVR D	IVR BB+ /Stable	--	IVR BBB- / Positive
2.	Fund Based Bank Facilities – Cash Credit	Long Term	40.00	IVR BB+ /Stable	IVR BB+/ Stable	IVR D	IVR BB+ /Stable	--	IVR BBB- / Positive

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs.crore)	Rating Assigned/ Outlook
Term Loan	-	-	November 2035	183.82	IVR BB+/ Stable
Cash Credit	-	-		40.00	IVR BB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-Jai-Hind-Sugar-oct22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: 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 https://www.infomerics.com/.