Jai Hind Sugar Private Limited (JHSPL)

September 25, 2023

Ratings

Facilities	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facility – Term Loans	144.75 (Decreased from Rs.183.82 crore)	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Revised	Simple
Long Term Fund Based Facility – Cash Credit/ Pledge Loan	49.50 (Increased from Rs.40.00 crore)	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Revised	Simple
Total	**194.25**	**(Rupees One Hundred Ninety-Four Crore and Twenty-Five Lakh Only)**		

Details of facilities are in Annexure 1

Detailed Rationale

The revision in the ratings of bank facilities of Jai Hind Sugar Private Limited (JHSPL) factors in improvement in financial and operational performance in FY23 and expected improvement in the performance of the Company in FY24.

Further, the rating continues to derive strength from extensive experienced promoters and funding support, healthy scale of operations and profit margins, improved capital structure, 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 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.

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 infusing funds through unsecured loans. As on March 31, 2023, the unsecured loans from promoters & relatives stood at Rs.95.93 crore, which have been considered as quasi equity.

Healthy scale of operations and profit margins

The total operating income of JHSPL increased significantly to Rs.497.74 crore in FY23(A) from Rs.318.25 crore in FY22(A), registering Y-o-Y growth of ~56%, primarily attributed to commissioning of Ethanol Distillery Plant from October 30, 2021, which generated additional revenue of Rs.123.40 crore in FY23(A). Moreover, the revenues from sugar sales and ethanol sales also increased in FY23(A) over FY22(A) on account of increase in sales volumes and realizations. The EBITDA margin of JHSPL declined to 13.26% in FY23(A) from 15.22% in FY22(A) owing to increase in sugar cane prices which showed an increase of around 7% in FY23 coupled with significant increase in the Harvesting & Transport

Expenses and mechanical repairs & maintenance. However, such fluctuations in the raw material prices are largely prevalent in the sugar industry. Despite the deterioration in the EBITDA margin, the PAT margin improved to 2.10% in FY23(A) from 1.72% in FY22(A) consequent upon the significant increase in operating revenue.

Improved capital structure

The overall gearing improved to 2.40x as on March 31, 2023, as compared to 2.97x as on March 31, 2022. Given the decrease in total debt levels in FY23, the debt coverage indicators also improved marginally with the DSCR having improved to 1.13x in FY23(A) from 1.08x respectively in FY22(A). The interest coverage improved to 1.39x in FY23(A) from 1.25x in FY22(A).

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

Earlier, JHSPL operated at 5,000 TCD of sugarcane crushing capacity and 18 MW of co-generation capacity. However, in October 2021, it 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 120 KLPD of ethanol. However, the license to operate at the increased capacity is expected to be received in next 1 to 2 months which will further result in increasing revenue going forward.

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 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.

Key Rating Weaknesses:

Elongated cash conversion cycle

The inventory holding of JHSPL reduced to 203 days in FY23 (A) from 318 days in FY22 (A) owing to decrease in molasses stock. However, such fluctuations in the inventory holding are largely prevalent in the sugar industry. The collection period decreased to 49 days in FY23 (A) from 72 days in FY22 (A) owing to good recovery. On the other hand, creditors’ period also decreased to 66 days in FY23 (A) from 126 days in FY22 (A). Given all of the above, the operating cycle decreased to 186 days in FY23 (A) from 263 days in FY22 (A).

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 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 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 comfortable working capital utilisations at 47.25% in the past 12 months ended August, 2023 indicating adequate liquidity buffer. The current ratio stood comfortable at 1.08 times as on March 31, 2023. The cash and bank balances of the company stood at Rs.12.76 Crore as on March 31, 2023 (A).

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 120 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.

Financials (Standalone):

(INR Crore)

For the year ended* As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	318.25	497.74
EBITDA	48.43	65.98
PAT	5.63	10.62
Total Debt	460.41	404.05
Adjusted Tangible Net Worth	154.87	168.14
Ratios		
EBITDA Margin (%)	15.22	13.26
PAT Margin (%)	1.72	2.10
Adjusted Overall Gearing Ratio (x)	2.97	2.40

**Classification as per Infomerics' standards*

Status of Non-cooperation with previous CRA:

India Ratings has continued to classify the rating of JHSPL under "ISSUER NOT COOPERATING" category as IND BB+ (ISSUER NOT COOPERATING) vide its Press Release dated October 19, 2022 due to lack of adequate information to carry out a review.

Brickwork has also continued to classify the rating of JHSPL under "ISSUER NOT COOPERATING" category as BWR B+ (ISSUER NOT COOPERATING) vide its Press Release dated August 01, 2023 due to non-availability of requisite information to carry out a review.

Any other information: None

Rating History for last three years:

<table>
<tr><th rowspan="3">Sr. No.</th><th rowspan="3">Name of Instrument /Facilities</th><th colspan="3">Current Ratings (Year 2023-24)</th><th colspan="5">Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount outstanding (Rs. Crore)</th><th rowspan="2">Rating</th><th colspan="3">Date(s) & Rating(s) assigned in 2022-23</th><th>Date(s) & Rating(s) assigned in 2021-22</th><th>Date(s) & Rating(s) assigned in 2020-21</th></tr>
<tr><th>October 20, 2022</th><th>July 27, 2022</th><th>May 17, 2022</th><th>May 31, 2021</th><th></th></tr>
<tr><td>1.</td><td>Fund Based Bank Facilities – Term Loans</td><td>Long Term</td><td>144.75</td><td>IVR BBB- / Stable</td><td>IVR BB+ / Stable</td><td>IVR BB+ / Stable</td><td>IVR D</td><td>IVR BB+ / Stable</td><td>--</td></tr>
<tr><td>2.</td><td>Fund Based Bank Facilities – Cash Credit/ Pledge Loan</td><td>Long Term</td><td>49.50</td><td>IVR BBB- / Stable</td><td>IVR BB+ / Stable</td><td>IVR BB+ / Stable</td><td>IVR D</td><td>IVR BB+ / Stable</td><td>--</td></tr>
</table>

Name and Contact Details of the Rating Analyst:

Name: Jalaj Srivastava

Tel: (079) 40393043

Email: jalaj.srivastava@infomerics.com

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 visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	--	--	October, 2032	4.15	IVR BBB- / Stable
Term Loan	--	--	November, 2035	64.48	IVR BBB- / Stable
Term Loan	--	--	March, 2035	20.38	IVR BBB- / Stable
Term Loan	--	--	July, 2025	1.71	IVR BBB- / Stable
Term Loan	--	--	March, 2035	25.01	IVR BBB- / Stable
Term Loan	--	--	March, 2035	21.12	IVR BBB- / Stable
Term Loan	--	--	July, 2025	7.90	IVR BBB- / Stable
Cash Credit / Pledge Loan	--	--	--	49.50	IVR BBB- / 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-JHSPL-sep23.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/.