



Press Release

Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd **(STKWSSKL)**

December 27, 2022

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action	<u>Complexity Indicator</u>
1	Long Term Bank Facilities	499.00	IVR BBB-/ Stable [IVR Triple B minus with Stable Outlook]	Assigned	Simple
	Total	499.00			

Details of facilities are in Annexure 1

Rating Rationale

The ratings assigned to the bank facilities of Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd derive strength from long operating history spanning seven decades, favourable geographical set-up, adequate sugar recovery levels, forward integration into distillery operations providing some cushion against cyclical sugar business, Government support to sugar industry, fiscal benefits with soft loans, threshold sugar realisations and cane procurement cost, power purchase agreement providing long term revenue visibility, increased thrust on ethanol production, healthy profitability though scale of operations declined in FY22 and moderate capital structure and debt coverage indicators. The rating is however constrained by susceptibility of working capital intensive operations, exposed to vagaries of nature, exposure to risk related to government regulations and cyclical nature of the sugar business.

Key Rating Sensitivities:

➤ Upward Rating Factor:

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.



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- Improvement in the capital structure with further improvement in debt protection metrics.
- **Downward Rating Factor:**
 - Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
 - Any further significant rise in working capital intensity or unplanned capex leading to any deterioration in the liquidity position.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long operating history spanning seven decades, favourable geographical set-up, adequate sugar recovery levels: Incorporated in 1955, Warana Sugar has a long operational history spanning over six decades. Its cooperative set up has close to 22,000 cane producing members which ensures stable cane supply year-on-year. The cooperative's command area is located in Kolhapur district of Maharashtra but being a multistate cooperative society can purchase cane from neighbouring states. Warana Sugar benefits from its presence in the high cane yield and high sugar recovery Kolhapur zone of Maharashtra. Given the conducive climate and topography, the cane yields in the company's catchment area historically have been above the state.

Forward integration into distillery operations providing some cushion against cyclical sugar business: The company's sugar operations are forward integrated into distillery operations. While the by-products provide an alternative source of revenue, they also cushion the company's profitability against the inherent cyclical nature in the sugar business. In FY2022, Warana Sugar derived 74% of its revenues from sugar operations while 15% revenues were garnered from ethanol and molasses.

Government support to sugar industry; fiscal benefits with soft loans, threshold sugar realisations and cane procurement cost: The company also benefits from the various fiscal incentives extended by the Government to the domestic sugar industry, which include subsidy for sugar exported, soft loans as well as interest subvention schemes. The Government of



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India also fixes the threshold cane procurement price annually, while periodically revising the minimum sugar realisations. The Government has also promoted the manufacturing of ethanol from B-molasses against C- molasses mainly by offering it a relatively higher realisation.

Power Purchase Agreement providing long term revenue visibility: Urjankar Shree Tatyasaheb Kore Warana Power Company Limited (Cogen unit of STKWSSKL) has installed a 44 MW co-generation power. The plant is running successfully and about ~32 MW power is exported to the Maharashtra State Electricity Distribution Company Limited (MSEDCL). Urjankar Shree Tatyasaheb Kore Warana Power Company Limited has signed a long-term Power Purchase Agreement (PPA) with MSEDCL for a period of 13 years (Since December 2012) at the rate of Rs 6.68 per unit. This provides Urjankar Shree Tatyasaheb Kore Warana Power Company Limited with assured long-term revenue for coming years.

Increased thrust on ethanol production: The government is promoting ethanol which will help it to save on the import bill and also helps sugar mills to reduce their dependence on sugar enabling them to clear the cane arrears. To promote ethanol the government has provided interest subvention on loans for ethanol capacity expansion, increased the price of ethanol, and fixed a separate price for B-heavy molasses-based ethanol and ethanol from sugarcane juice etc. Further, Government in June 2021 has also brought forward the deadline to increase the ethanol blending in petrol to 20% by 2030 to 2025. Currently it stands at 10%. This will lead to increase in ethanol demand for sugar companies with integrated operations. Currently, sugar companies are able to supply only 70% of tenders floated by oil marketing companies.

Healthy profitability though scale of operations declined in FY22: TOI of the company has declined by ~19% to Rs. 530.86Cr. for FY22 for consolidated financials given the regulated sugar industry selling quota is decided by the government for the year to regulate demand and supply. During the year FY22 there was overall decline in the sugar volumes resulting in lower turnover. According to the management, decline in volume is due to less cane crushing in FY21 due to adverse weather conditions. Consolidated EBITDA margin for the company remained at 18.90% for FY22 compared to 14.84% in FY21 given better price realisation given by Rs.32/kg of sugar in FY22 compared to Rs. 30.5/Kg in FY21, Rs.60/Lt of ethanol in FY22 compared to Rs. 58.03/Lt in FY21 and Rs.65/Lt in FY22 compared to Rs. 61/Lt in FY21 for direct syrup ethanol. Also, the cogen unit of the company has produced more



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electricity due to higher cane processed in FY22 and this unit has PPA with government of Maharashtra at Rs.6.68/unit of electricity. Consolidated PAT margin has improved to 4.78% for FY22 compared to 0.42% in FY21. GCA of the company at consolidated level has improved to Rs. 47.16 crore in FY22 compared to Rs. 31.39 crore in FY21.

Moderate capital structure and debt coverage indicators: Leverage ratios of the company has remained moderate marked by overall gearing (considering quasi equity) at 0.63x as on March 31, 2022, compared to 2.29x as on March 31, 2021, as unsecured loans of Rs.373 crore have been considered as quasi equity as per the undertaking given by the company to its bankers. TOL/TNW remained at 1.19x on March 31, 2022, compared 3.49x on March 31, 2021. ISCR of the company improved to 1.82x for FY22 compared to 1.54x in FY21. Total Debt/GCA of the company improved to 9.68x for FY22 compared to 23.19x in FY21 due to increase in the GCA and decrease in the debt.

Key Rating Weaknesses

Working capital intensive operations, cyclicity in the sugar business: Since sugar is an agro-based commodity, 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, high inventory days of 419 for FY22 and requirement of higher working capital. The operating cycle of the company remained elongated at 433 days in FY22 compared to 314 days in FY21.

Exposed to vagaries of nature: Being an agro-based industry, performance of STKWSSKL is dependent on the availability of sugarcane crop and its yield, which may get adversely affected due to adverse weather conditions. The climatic conditions and pest related attacks have a bearing on the cane output, which is the primary feedstock for a sugar producer. Climatic conditions, to be precise the monsoons influence various operational structures for a sugar entity, such as the crushing period and sugar recovery levels. In addition, the degree of dispersion of monsoon precipitation across the sugar cane growing areas also leads to fluctuating trends in sugar production in different regions.

Exposure to risk related to government regulations: The Sugar industry is highly exposed to risks related to Government regulations. Various Government Acts virtually governs all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by - product pricing. In Maharashtra, sugar cane prices are governed through fair and



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remunerative price (FRP) regime, suggested by the Commission for Agricultural Costs and Prices (CACP) and announced by the Central Government Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market. Moreover, ethanol-blending policy is also highly regulated by the government. Vulnerability in business due to Government regulations is likely to continue over the medium term.

Cyclical nature of the sugar business: The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country with typical sugar cycles lasting three five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.

Analytical Approach: Consolidated (For arriving at the ratings, Infomerics has taken a consolidated view of STKWSSKL, along with its subsidiary company, Urjankar Shree Tatyasaheb Kore Warana Power Company Limited, given the common management, latter being the cogen unit for STKWSSKL having stake of 66.66% and financial linkage).

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning Rating Outlook.](#)

Liquidity: Adequate

The Company has been earning a moderate level of GCA for the last few years and the same is expected to increase further with increase in scale of operations. The company maintains moderate cash and bank balance to meet its liquidity requirements. The unencumbered cash and bank balances remained at Rs. 29.35 crores as on 31st March 2022 which increased from Rs. 23.08 crore as on March 31, 2021, on consolidated basis. The average utilization of working capital limits remained at 25.97% during the 12 months ended October 2022. The company expects sufficient cushion in cash accruals against its debt obligations going forward.



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The GCA has improved to Rs.47.16 Crore in FY22 compared to Rs. 31.39 crore in FY21 on consolidated basis. Overall, the liquidity position is Adequate. Operating cycle of the company has elongated to 433 days for FY22 compared to 314 days in FY21 due to increase in the inventory and collection period with a decline in scale of operations also the company has support of Rs. 373.00 crore in the form of unsecured loan for next five years which has been considered as quasi equity.

About the Company

Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Limited (STKWSSKL) was promoted by Late Mr. Tatyasaheb Kore in September 1955 (founder Chairman). Registered under 'The Maharashtra Co-operative Societies Act, 1960', the company is involved in the manufacture of sugar and allied products. The sugar factory is the flagship company of the Warananagar, Kolhapur based Warana group encompassing co-operative dairy project (Warana Dairy), co-operative poultry farm, co-operative bank, education institutes in Warana Nagar, Kolhapur, Maharashtra. The STKWSSKL has a subsidiary "Urjankar Shree Tatyasaheb Kore Warana Power Company Limited" (USTKWPCCL) which is a co-generation unit of the company. STKWSSKL has 66.7% stake in USTKWPCCL.

Financials (Standalone)

INR in Crore

For the year ended* As on	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	480.71	455.20
EBITDA	47.49	56.83
PAT	0.28	0.27
Total Debt	674.51	458.80
Tangible Net Worth (including quasi equity)	196.05	590.38
EBITDA Margin (%)	9.88	12.49
PAT Margin (%)	0.06	0.06



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Overall Gearing Ratio (including quasi equity) (x)	1.39	0.21
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**Classification as per Infomerics' standards*

Financials (Consolidated)

For the year ended / As on*	31-Mar-21 Audited	31-Mar-22 Audited
Total Operating Income	657.88	521.80
EBITDA	97.66	98.60
PAT	2.76	25.35
Total Debt	728.08	456.80
Tangible Net Worth (including quasi equity)	317.68	723.67
EBIDTA Margin (%)	14.84	18.90
PAT Margin (%)	0.42	4.78
Overall Gearing ratio (including quasi equity) (x)	2.29	0.63

**Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: The ratings of the company i.e. STKWSSKL has been moved to INC by India Ratings & Research as per the Press Release dated December 30, 2021 due to unavailability of the information.

Any other information: Not Applicable

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2022-23)					Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating (December 27, 2022)	Rating (August 24, 2022)	Rating (July 27, 2022)	Date(s) & Rating(s) assigned in 2021-22 (April 29, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
Cash Credit	Long Term	499.00	IVR BBB- /Stable	IVR BB- /Stable and Withdrawn	IVR BB- /Stable	IVR B/Stable	-	-



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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.

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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
Long Term Fund Based Facility – Cash Credit	-	-	-	499.00	IVR BBB-/Stable

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd	Full Consolidation
Urjankur Shree Tatyasaheb Kore Warana Power Company Limited	Full Consolidation

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-STKWSSKL-dec22.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 www.infomerics.com.