Vitthalrao Shinde Sahakari Sakhar Karkhana Limited

August 06, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Fund Based	304.78	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
Total	**304.78**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Vitthalrao Shinde Sahakari Sakhar Karkhana Limited (VSSSKL) takes into account its experienced promoters with long track record, healthy scale of operation, incremental benefits from fully integrated nature of business, PPA providing long term revenue visibility and recent government measures for sugar sector. Further, the ratings derive comfort from its healthy operating margin and improvement in its performance during FY20 (provisional). These rating strengths partially offset by its moderate debt protection metrics, exposed to vagaries of nature, exposure to risk related to government regulations, working capital intensiveness and cyclical nature of sugar business.

Key Rating Sensitivities:

Upward Factors:

- Increase in scale of operation from commencement of ethanol Plant
- Improvement profitability metrics thereby leading to overall improvement in cash accruals and debt protection parameters on a sustained basis

Downward factors:

- Decline in profitability due to any company or industry related factors leading to deterioration in debt protection metrics.
- Further deterioration in operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Promoters with long track record**

VSSSKL was incorporated in 2001, promoted by Mr. Babanrao Shinde. (Founder Chairman) to undertake sugar related production. Mr. Shinde has long standing track record of operating various businesses, which has helped him in establishing a healthy relationship with local farmers. The overall operation of the company is supervised by Mr. Rajendrakumar Suryakant Ranavare as a Managing Director of the factory. The Company is led by a team of well qualified and experienced professionals which has helped the company build established relationship with customers and suppliers. The Company is likely to benefit from the extensive experience of its promoters and management over the medium term.

- **Healthy Scale of operation**

VSSKL'S operating income has been increasing at a CAGR of 10.02% from FY17 to FY20. The operating income has increased by 26% y-o-y in FY20. It has crushed 14,136,121 Qtls of cane in FY20, has a distillery division of 150 KLPD and a co-gen plant of 50.50 megawatt (MW) of power. Over the last three years PAT has also improved significantly for VSSSKL.

- **Incremental benefits from integrated nature of operations**

VSSSKL's operations are fully-integrated in nature. There is an existence of forward integration in form of power co-generation capacity of 50.50 Megawatt (MW) and another one in the form of distillery division of 150 kilo litre per day (KLPD). The integration has led to better absorption of fixed cost and any increase in the raw material cost. During FY20, almost 77% of the revenue is generated from sugar sales and 14.16% revenues from the sale of spirits from the distillery division and 7.04% from the sale of power from the co-gen plant. Rest is contributed by sale of molasses, bagasse, ash & compost.

- **Power Purchase Agreement providing long term revenue visibility**

VSSSKL has signed a long term Power Purchase Agreement (PPA) with Maharashtra State Electricity Distribution Co. Ltd (MSEDCL) for a period of 13 years at the rate of Rs.6.64 per unit (for Unit –I) & Rs.6.84 per unit (for Unit-II). This provides the company with assured long term revenue for 13 years.

- **Recent government measures for sugar sector**

Indian Government has supported the sugar industries by increasing the minimum selling price of sugar by Rs.2 per kg in February 2019. The Cabinet Committee on Economic Affairs (CCEA) has approved sugar export policy for evacuation of surplus stocks during sugar season 2019-20. The CCEA has given nod to sugar export subsidy of about Rs.6,268 crore for FY20 in order to liquidate surplus domestic stock and help mills in clearing huge sugarcane arrears to farmers in August 2019. The cabinet has approved export subsidy for 6 lakh metric tonne (LMT) for 2019-20. The government will provide a lump sum subsidy of Rs.10,448 per metric tonne to sugar mills for the sugar season 2019-20. The export subsidy will be provided for expenses on marketing costs including handling, upgrading and other processing costs, international and internal transport costs and freight charges. The subsidy would be directly credited into farmers' accounts on behalf of mills against sugarcane price dues. Subsequent balance, if any, would be credited to mills' account.

Key Rating Weaknesses

- **Moderate Debt Protection Metrics**

VSSSKL has taken loans for distillery unit expansion and other plant and machinery utilised for working capital which has commenced operations from November 27, 2019. The said expansion cost has impacted its debt parameter metrics up to some extent. Interest coverage ratio stood moderate at 1.69x in FY20 as compared to 1.48x in FY19. Over all Gearing stood at 3.28x and TOL/TNW stood at 3.95x in FY20. Infomerics expects debt protection metrics to improve substantially from FY22 due to incremental benefits arising out of concluded capex.

- **Exposed to vagaries of nature**

Being an agro-based industry, performance of VSSSKL 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 strictures 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. The procurement of sugarcane by the sugar entities is governed by the Sugarcane (Control) Order, 1966, which stipulates that the mills need to source their sugarcane only from the command area allocated to them. The order also makes it mandatory for the sugar mill to necessarily uplift the entire sugarcane production of the farmer, irrespective of the market demand, which has a considerable impact on the inventory holding pattern. In Maharashtra sugar cane prices are governed through fair and remunerative price (FRP) regime, suggested by the Commission for Agricultural Costs and Prices (CACP) and announced by the Central Government (which is now Rs.275 per quintal and susceptible to change as per government policy). 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.

- **Working capital intensiveness**

Since sugar is an agro-based commodity (with sugarcane crushed mainly during November to April). 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. Further, the company has elongated collection period of about two months. The operating cycle of the firm remained elongated at 300 days in FY20.

- **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: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the firm is expected to remain adequate as the firm is expected to generate steady cash accrual ~Rs.86.05-99.11 crore during FY21-23 as against its scheduled repayment obligation in the range of ~Rs.71.42-46.19 crore during the aforesaid period. The firm has adequate cash and bank balances of INR 39.22 Cr in FY20. Further, its bank limits remained utilized to the extent of ~60% during the past 12 months ended February 2020 indicating an adequate liquidity buffer of 40% in case of any contingent liability.

About the Company

VSSSKL (Vitthalrao Shinde Sahakari Sakhar Karkhana Ltd.) was established in the year 2001 by Mr Babbanrao Shinde, is based in Gangamai Nagar (Solapur, Maharashtra). It is engaged in sugar manufacturing, power generation and distillery operations. This is the first company to introduce Diffuser Technology in Maharashtra in Sugar Production which yields good result in sugar production. Owing to their qualitative products, they have earned ISO 9001:2015 certification. This certification further boost their export market and now they have penetrated their reach to different parts of Europe.

Financials: Standalone

(Rs. crore)

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	657.88	774.84
EBITDA	87.46	98.88
PAT	5.14	14.32
Tangible Net worth	231.71	246.42

For the year ended*/As on	31-03-2019	31-03-2020
^Adjusted Net worth	205.08	219.79
EBITDA Margin (%)	13.29	12.76
PAT Margin (%)	0.78	1.84
Overall Gearing Ratio (x)	2.60	3.28

**As per Infomerics Standards*

^INR 26.63 Cr of Revaluation Reserves have been adjusted

Status of non-cooperation with previous CRA: The rating was migrated to Issuer non-cooperating category by CARE vide its press release dated March 27, 2020 due to lack of cooperation from the client.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	275.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	-	-	-
2.	Term Loan	Long Term	29.78	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	-	-	-

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.

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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 Bank Facilities – Cash Credit	-	-	-	275.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)
Long Term Bank Facilities – Term Loan	-	-	March 2024	29.78	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)