Press Release

Eco Cane Sugar Energy Limited

January 15, 2021

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Fund Based Bank Facilities – Term Loans	88.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
Long Term Fund Based Bank Facilities – Cash Credit	100.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
Proposed Short Term Bank Facilities – Bill Discounting	15.00	IVR A4+ (IVR Single A Four Plus)	Assigned
Total	**203.00**		

Details of Facilities are in Annexure 1

Detailed Rationale:

The aforesaid ratings assigned to the bank facilities of Eco Cane Sugar Energy Limited (ECSEL) derives strength from experienced promoters, diversified product profile, improved cash conversion cycle and moderate financial risk profile. The rating however is constrained by 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 Factors

- Increase in scale of operation & profitability leading to overall improvement in cash accruals and debt protection parameters on a sustained basis
- TOL/ATNW being improving below 4.5x on a sustained basis.

Downward Factors

- Decline in scale of operations and/or profitability due to any company or industry related factors leading to deterioration in debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced Promoters:

Eco Cane Sugar Energy Limited is a part of the Karnataka based Doddannavar group. Currently, ECSEL is managed by the fourth Doddannavar generation. 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.

Diversified product profile:

ECSEL's crushing capacity is 4200 TCD per day and manufactures Sugar and also deals in it by products i.e. Molasses Bagasse and Pressmud. The various grades of sugar produced by the company are L Super, M Super, Si Super and S2 Super. In FY 20, 91% of the operating income was gernerated by sale of sugar, followed by 6 % from sale of Molasses and 2% from sale of Bagasse & Pressmud.

Improved Cash Conversion Cycle:

The company's operating cycle has improved from 323 days in FY19 to 161 days in FY2020 on account of lower inventory days and collection days in FY2020. The operating cycle is projected to improve to 83 days in FY2021 led by lower inventory holding days and collection days.

Moderate financial risk profile:

The financial risk profile of the group is modest marked by moderate debt protection metrics and debt coverage indicators. The net worth of company stood at Rs.39.38 Cr (includes quasi equity of Rs. 20.89 Cr) as on 31 March, 2020 as against Rs.40.35 Cr (includes Rs.24.85 Cr of quasi equity) as on 31 March, 2019. The debt-equity stood at 1.29 times as on 31 March, 2020 as against 1.38 times as on 31 March, 2019. The overall gearing (debt-equity) stood at 4.06 times as on 31 March, 2020 as against 3.31 times as on 31 March, 2019. Further, TOL/AdjustedTNW stood at 6.22 times as on 31 March 2020.

The company has recently completed the CAPEX of its expansion project which amounted to ~Rs. 66.58 Cr. The incremental benefits of the capex have started from FY21 as current year is the first full year of operation of the planned capex. There will be overall improvement in the company operational and financial parameters from FY21 onwards. In IHFY21 the company booked the revenue of around 83.21 crore (IHFY20: Rs.111.53).

Key Rating Weaknesses:

Working capital intensive operations:

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. The average bank limit utilisation stood at 76.27 percent for the last 12 months ended Dec 2020.

Exposed to vagaries of nature:

Being an agro-based industry, performance of ECSEL 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 Maharastra 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.

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 Company has a stretched liquidity profile with gross cash accrual tightly matching the repayment obligation. The average Annual Utilisation for the last 12 months ended Dec 2020 stood at 76.27%.

About the Company:

Eco Cane Sugar Energy Limited previously known as Nalawade Sugar Mills Ltd (NSML) engaged in manufacturing of sugar is a part of Karnataka based Doddannavar Group. It was incorporated in 1999 by Mr. Sangramsingh A. Nalawade, established a cane sugar unit with a capacity of 2500 TCD. Later in 2005, Doddanavar Brothers joined the Company as directors, assumed control and also infused equity needed for the project implementation. Operations commenced in 2007. The company applies for government contract via e-auctions for procurement of sugar for its Public distribution system in the states of Andra Pradesh, Kerala, Telangana & Maharashtra. Recently, the company completed the expansion of its Sugar Cane Crushing Capacity to 4,200 TCD. The Company also sells by-products like Bagasse, Molasses and Press Mud. In FY 20 the crushing operation was undertaken for 124 days and had a recovery rate of 12.27%.

Financials: Standalone

(Rs. Crore)

For the year ended/ As On	31-03-2019	31-03-2020
	(Audited)	(Audited)
Total Operating Income	53.86	158.68
EBITDA	7.28	14.05
PAT	0.14	1.28
Total Debt	133.70	159.84
Tangible Net-worth	40.35	39.38
Ratios		
EBITDA Margin (%)	13.52	8.86
PAT Margin (%)	0.26	0.80
Overall Gearing Ratio (x)	10.22	9.77

Status of non-cooperation with previous CRA:

Brickworks Ratings vide their press release dated January 18th, 2020 has classified the case under Issuer Not Co-operating status on account of non-submission of relevant information.

Any other information: NA

Rating History for last three years:

		Current Ratings (Year 2020-21)			Rating History for the past 3 years		
Sr. No.	Name of Instrument/Facilities	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.	Long Term Fund Based Bank Facilities – Term Loans	Long Term	88.00	IVR BB+/Stable	--	--	--
2.	Long Term Fund Based Bank Facilities –	Long Term	100.00	IVR BB+/Stable	--	--	--

	Cash Credit						
3.	Proposed Short Term Bank Facilities – Bill Discounting	Short Term	15.00	IVR A4+	--	--	--

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 Fund Based Bank Facilities – Term Loans	--	--	Upto Jan 2025	88.00	IVR BB+/Stable
Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	100.00	IVR BB+/Stable
Proposed Short Term Bank Facilities – Bill Discounting	--	--	--	15.00	IVR A4+