



Press Release

Shree Pandurang Sahakari Sakhar karkhana Limited [SPSSKL]

January 05, 2021

Rating

| Sl. No | Instrument/ Facility | Amount in Cr. | Ratings | Rating Action |
|--------|---|------------------|--|---------------|
| 1 | Long Term-Fund Based -Cash Credit | 50.00 | IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook) | Assigned |
| | Total | 50.00 | | |

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from experienced promoters with long track record, Incremental benefits from integrated nature of operations, Power Purchase Agreement providing long term revenue visibility, Improvement in EBITDA Margin & PAT Margin and recent government measures for sugar sector. The rating however is constrained by Working capital intensive operations, cyclicity in the sugar business, Moderate Debt Matrices, Exposed to vagaries of nature and Exposure to risk related to government regulations

Key Rating Sensitivities:

Upward Rating Factor:

Substantial & sustained improvement in revenue while maintaining the profitability leading to improvement in cash accruals and debt parameters.

Downward Rating Factor:

- 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.



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Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters with long track record

SPSSKL was established in 1988 and has a long track of operation in Sugar Manufacturing. Its command area comprises of over 103 villages, around ~30,000 farmers. Further, the promoter Shri Sudhakar Rao Paricharak (chairman), Shri Vasantrao Deshmukh and Shri. Prashant Paricharak has developed healthy customer and suppliers relations due to their experience about the industry over the years. 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.

Incremental benefits from integrated nature of operations

SPSSKL's operations are fully-integrated in nature which has led to better absorption of fixed cost and any increase in the raw material cost. SPSSKL's crushing capacity is 6000 TCD per day, distillery of 45 kilo liters per day (KLPD) and a co-generation plant of 19 mega-watts (MW). The cogeneration and distillery units provide alternate revenue streams and some cushion against cyclicity in sugar business. Furthermore, integrated nature of operations supports overall profitability of SPSSKL.

Power Purchase Agreement providing long term revenue visibility

SPSSKL has installed a 19 MW co-generation power plant based on the bagasse. The plant is running successfully and about 10 MW power is sold to the Maharashtra State Electricity Distribution Company Limited (MSEDCL). SPSSKL has signed a long term Power Purchase Agreement (PPA) with MSEDCL for a period of 13 years at the rate of Rs 6.64 per unit. This provides the company with assured long term revenue for coming years.

Improvement in EBITDA Margin & PAT Margin

There is a significant improvement in EBITDA Margin and PAT Margin in spite of drought which has affected sugarcane crushing season 2019-20 & the company is able to utilise only 74% of their crushing capacity due to lower availability of sugarcane. SPSSKL has



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generated highest Net Profit since incorporation of INR8.44 Cr. in FY20. EBITDA Margin improves from 8.48% in FY19 to 13.54% in FY20 and PAT Margin improves from 0.43% in FY19 to 2.42% in FY20. EBITDA Margin improves due to curtailment of expenses due to use of automation & reduction of seasonal workforce and improvement in sugar and other product price realization i.e. Sugar realisation has improved INR. 2965.54 per QTL in FY19 to INR. 3167.95 per QTL in FY20. Rectified Spirit realisation improves from INR39.00 per litre to INR47.00 per litre. Also, during FY20 SPSSKL has focused on Ethanol Production which is a major profit driver and Net Profit of Distillery division has improved from INR 9.71Cr in FY19 to INR17.67Cr. in FY20. Furthermore, the newly added Sugarcane Agro Farm contributed 0.95Cr in total profits in FY20

Recent government measures for sugar sector

Indian Government has supported the sugar industries by increasing the minimum selling price of sugar by Rs.2.00 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 SY20 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

Working capital intensive operations, cyclicity in the sugar business

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 operating cycle of the firm



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remained elongated at 426 days in FY20. The average bank limit utilisation stood at ~77.63% percent for the last 12 months ended November, 2020.

Moderate Debt Matrices

Over all Gearing stood at 4.07x and Long Term Debt to equity stood at 1.01x in FY20. Interest coverage ratio stood moderate at 1.95x in FY20 as compared to 1.61x in FY19 due to decline in interest cost and improvement in EBITDA.

Exposed to vagaries of nature

Being an agro-based industry, performance of SPSSKL 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-



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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 & Applicable Criteria:

- Standalone
- 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 ~ INR. 22.46- INR 33.77 crore during FY21-23 as against its scheduled term debt repayment obligation in the range of ~INR.8.0 –INR 20.25 crore during the aforesaid period Further, its bank limits remained utilized to the extent of ~77.63% during the past 12 months ended November -20

About the company

SPSSKL was incorporated under Maharashtra Co-Operative Societies Act 1960 in August 1988, to undertake sugar and sugar related production by Mr. Sudhakar Rao Paricharak, former member of legislative assembly (MLA), Pandhapur (Founder Chairman of SPSSKL). SPSSKL's current crushing capacity is 6000 TCD per day, distillery of 45 kilo liters per day (KLPD) and a co-generation plant of 19 mega-watts (MW).



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Financials (Standalone)

INR in Crore

| For the year ended / As on* | 31-03-2019 (Audited) | 31-03-2020 (Audited) |
|-----------------------------|-------------------------|-------------------------|
| Total Operating Income | 469.74 | 348.90 |
| EBITDA | 39.85 | 47.24 |
| PAT | 2.01 | 8.44 |
| Total Debt | 267.27 | 283.42 |
| Tangible Net Worth | 87.34 | 95.91 |
| EBIDTA Margin (%) | 8.48 | 13.54 |
| PAT Margin (%) | 0.43 | 2.42 |
| Overall Gearing ratio (x) | 4.37 | 4.07 |

* Classification as per Infomerics' standards

Details of Non Co-operation with any other CRA: Acuite Ratings & Research in its press release published on June 24, 2020 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information

Care Ratings in its press release published on August 05, 2020 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information

Any other information: N.A.

Rating History for last three years:

| Sl. No | Name of Instrument/ Facilities | Current Rating (Year 2020-2021) | | | Rating History for the past 3 years | | |
|--------|-----------------------------------|---------------------------------|--------------------------------|--------------------------------|---|---|---|
| | | Type | Amount outstanding (INR 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 | 50.00 | IVR BBB-/ Stable Outlook | -- | -- | -- |



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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:

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Annexure 1: Details of Facilities

| Sr. No | Name of Facility | Date of Issuance | Coupon Rate/IRR | Maturity Date | Size of Facility (INR Crore) | Rating Assigned/ Outlook |
|--------|------------------------------------|------------------|-----------------|---------------|------------------------------|--------------------------|
| 1 | Long Term-Fund Based - Cash Credit | -- | -- | -- | 50.00 | IVR BBB- /Stable Outlook |