July 02, 2024

Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited: Rating upgraded to [ICRA]BB (Stable) and removed from Non-Cooperation category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based -CC	50.0	50.0	[ICRA]BB (Stable); upgraded from [ICRA]BB-(Stable) ISSUER NOT COOPERATING; removed from Issuer Not Cooperating category
Long Term – Fund Based -Term Loan	50.0	50.0	[ICRA]BB (Stable); upgraded from [ICRA]BB-(Stable) ISSUER NOT COOPERATING; removed from Issuer Not Cooperating category
Total	**100.0**	**100.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating revision factors in the expected improvement in Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited's (Shahu Sugar) cash flows because of expected improvement in cane crushing, sugar sales, healthy sugar realisations and expectations of these to remail comfortable (due to production of more value added Sulphur-less sugar), higher ethanol production from the expanded multi-feed distillery (expanded from 60 KLPD to 180 KLPD) aiding profitability as well as working capital cycle, and comfortable cushion in working capital limits (enhanced to Rs. 285 crore from Rs. 195 crore). Curtailment of sugar sales and ethanol production by the government during FY2024, in light of expected lower sugar production, had resulted in excess sugar stock build-up as on March 31st, 2024. The same is expected to come down during FY2025, with expectation of higher sugar sales quota allocation (domestic as well as exports) as well as higher diversion towards ethanol.

The rating continues to draw comfort from the company's long operational history and its locational advantage resulting in an adequate cane availability, further ensuring high operational efficiency. The rating also favourably factors in the forward integration of sugar operations into power cogeneration and distillery business, which provides the necessary cushion to the company's profitability against the cyclicality in sugar operations. Further, favourable Government policies towards the sugar industry in the form of soft loans, sugar export subsidy and interest subvention schemes, among others, also support the profitability metrics of the sugar mills to an extent.

However, the rating continues to be constrained by the company's weak profitability and high working capital intensity, mainly because of the year-end sugar inventory build-up and the vulnerability of its profitability to volatility in sugar prices. Sizeable debt funded capex during FY2024-Q1FY2025 has also significantly increased debt levels, leading to moderation in debt capitalisation and coverage metrices. The rating also remains constrained by the sizeable debt repayments in the near term. Further, the rating also considers the company's exposure to the inherent cyclicality in the sugar industry; the agro-climactic risks related to cane production and the Central Government's policies on sugar trade, and pricing of cane, sugar and ethanol.

The stable outlook reflects ICRA's expectation that the company would be able to ensure adequate cane availability, given its strong relations with farmers, which along with its integrated operations would support its revenues and profitability.

Key rating drivers and their description

Credit strengths

Operating history spanning five decades - Shahu Sugar, incorporated in 1977, has a long operational history spanning five decades. Its co-operative set up has close to 15,000 cane-producing members and more than 20,000 cane suppliers, which ensures stable cane supply YoY. The co-operative's command area is spread over 100 villages of Maharashtra and Karnataka.

Favourable location and integrated sugar operations- Shahu 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 80 MT/hectare while gross sugar recovery has been above 12%. Its sugar operations are forward integrated into distillery and power cogeneration operations. While the by-products provide an alternative source of revenue, they also cushion the company's profitability against the inherent cyclicality in the sugar business. The company is in final stages of expanding its distillery capacity to 180 KLPD (from 60 KLPD), which would further aid diversification of revenues and improvement in working capital cycle.

Favourable Government policies towards industry – The company benefits from the various fiscal incentives extended by the Government to the domestic sugar industry, which include subsidy for sugar exported, soft loans and interest subvention schemes. The Government has also promoted ethanol manufacturing from B-molasses against C-molasses, mainly by offering it a relatively higher realisation, which is likely to support the profitability and cash flows of integrated sugar units like Shahu Sugar.

Credit challenges

Leveraged capital structure and weak debt coverage metrics - The company's debt levels continued to remain elevated and increased to Rs 442.41 crore as on March 31, 2024, from Rs 248.65 crore as on March 31, 2023, owing to debt funded capex and higher working capital utilisation as on year end. Its gearing increased to 3.95 times as on March 31, 2024, from 2.34 times as on previous fiscal end. TOL/TNW also increased to 5.47 times as on March 31, 2024 vis-à-vis 3.19 times as on March 31, 2023. The coverage indicators continued to remain weak in FY2024, with interest coverage of 2.24 times (PY: 1.74 times) and DSCR of 0.90 times (P.Y. 1.05 times).

Increased working capital intensity with high-inventory holdings – As is inherent in the sugar industry, the company's inventory levels remain on the higher side because of the seasonal nature of business. The build-up of sugar stock reaches its peak at the fiscal year end (March), resulting in high working capital requirements. Further, curtailment of sugar sales and ethanol production by the government during FY2024, fearing lower sugar production, had resulted in even higher excess sugar stock build-up as on March 31st, 2024. The same is expected to come down during FY2025, with expectation of higher sugar sales quota allocation as well as higher diversion towards ethanol. The inventory levels remained elevated at 422 days as on March 31, 2024 (PY: 192 days), resulting in a high working capital intensity of 72% (PY: 39%).

Sizeable repayment obligations in the near to medium term - The company has significant debt repayment obligations of Rs. ~25/40/27 crore in FY2025/FY2026/FY2027 against its outstanding term borrowings of Rs. 174.07 crore. Timely liquidation of the high sugar stocks at adequate prices remains critical for its profitability and liquidity.

Exposure to agro-climatic risks and cyclical trends - Cane production remains a function of agro-climatic conditions, which ultimately impacts the volumes and realisations of sugar and its by-products. Lower-than-expected rainfall in the co-operative's catchment area can result in restricted cane availability, thus impacting the crushing volumes for the season. Further, the sugar business remains vulnerable to any unfavourable changes in Government policies related to sugar trade.

Vulnerability to volatility in sugar realisations and cane procurement costs - Typically, the profitability of sugar entities remains driven by sugar realisations and cane procurement costs. Whereas sugar realisations remain mainly market driven, the state Governments fix the minimum support price for cane. Any adverse movements in the same impact the contribution margins and, hence, profitability of the sugar mills.

Liquidity position: Adequate

Average cushion in sanctioned working capital limits (enhanced to Rs. 285 crore from Rs. 195 crore) as well as drawing power stood at around ~35-40% during FY2024 (ranging from 3% to 87%), which is expected to remain at similarly healthy levels going forward as well. As any other typical sugar mill, the company holds substantial year-end sugar inventory, and its liquidation at remunerative pricing remains vital as far as the liquidity is concerned. SCSSSKL has high scheduled repayments over the medium term. These are expected to be met from a mix of internal accruals, working capital bank lines and liquidation of stock.

Rating sensitivities

Positive factors – ICRA could upgrade the rating of SCSSSKL if it is able to demonstrate a significant improvement in its working capital cycle resulting on reduction of WC debt, and improvement in capitalization and coverage indicators.

Negative factors – Negative pressure on SCSSSKL's rating could arise from any significant deterioration in profitability metrics or increase in working capital intensity adversely impacting its liquidity profile. Additionally, any significant debt-funded capital expenditure (capex) adversely impacting the capital structure and debt coverage metrics is also a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology] [Rating Methodology -Sugar]
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1977, the company started with a crushing capacity of 1250 TCD. It was converted into a multi-state co-operative society in 2006. The company has more than 15,000 cane producing members and more than 20,000 cane suppliers. The company has 91 villages (82 from Maharashtra and 9 from Karnataka) in the area of operation. Its current cane crushing capacity stands at 8000 TCD. It has also forward integrated into distillery operation (60 KLPD; being expanded to 180 KLPD) and power co-generation operations (27.5 MW; being expanded to 34 MW).

Key financial indicators (audited)

	FY2023	FY2024*
Operating income	536.5	394.0
PAT	0.6	2.0
OPBDIT/OI	7.3%	10.1%
PAT/OI	0.1%	0.5%
Total outside liabilities/Tangible net worth (times)	3.2	5.5
Total debt/OPBDIT (times)	6.4	11.1
Interest coverage (times)	1.7	2.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Note: Revenues and OPBIDTA are adjusted for sale of molasses and syrup. Some molasses sales are to external parties, but because of unavailability of break-up, the same is not considered part of revenues as a conservative measure. The overall impact of the same on the financials is not material.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
				July 02, 2024	April 28, 2023	-	28-Jan-2022
1	Term Loans	Long Term	50.00	[ICRA]BB (Stable)	[ICRA]BB- (Stable); ISSUER NOT COOPERATING	-	[ICRA]BB+ (Stable)
2	Cash Credit	Long Term	50.00	[ICRA]BB (Stable)	[ICRA]BB- (Stable); ISSUER NOT COOPERATING	-	[ICRA]BB+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loans	Simple
Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	FY2014	-	FY2026	50.00	[ICRA]BB (Stable)
NA	Cash credit	-	-	-	50.00	[ICRA]BB (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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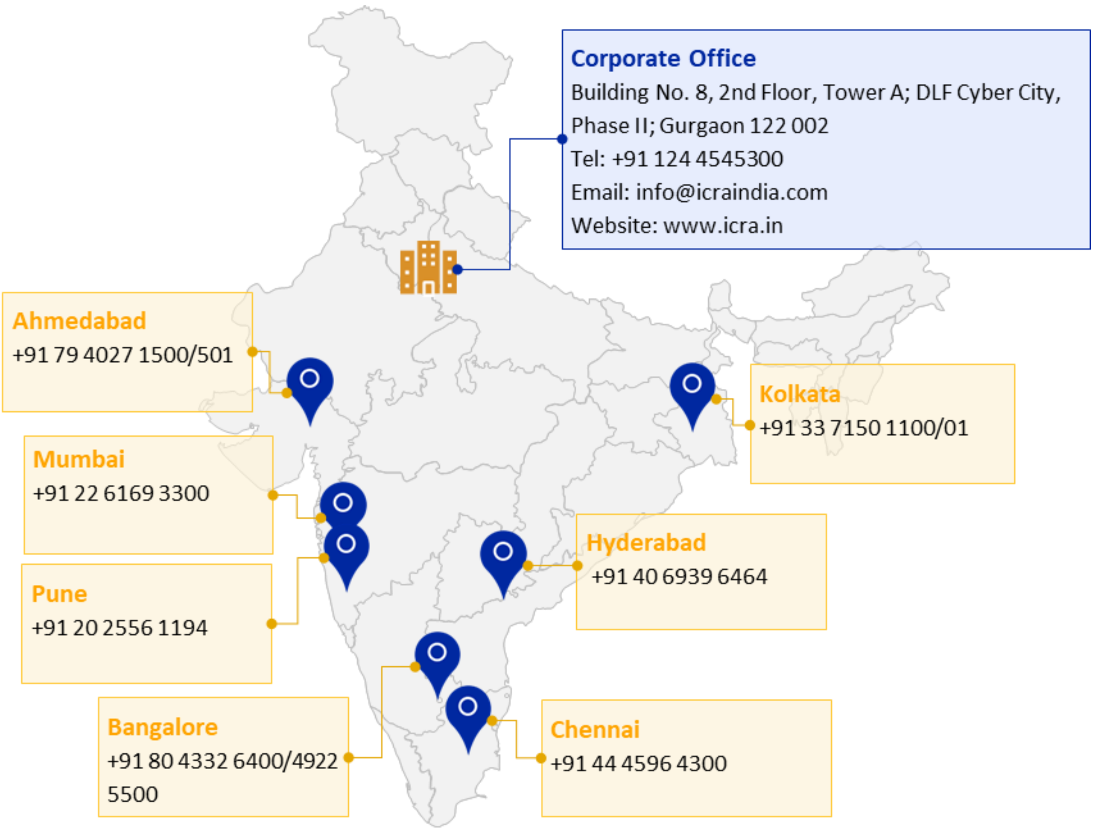

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