February 25, 2022

Rajarambapu Patil Sahakari Sakhar Karkhana Limited: Rating downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	500.00	500.00	[ICRA]B+(Stable); downgraded from [ICRA]BB-(Stable)
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade of Rajarambapu Patil Sahakari Sakhar Karkhana Limited (RPSSK) factors in the sizeable debt-funded capital expenditure (capex) of Rs. 137.7 crore undertaken by the company to expand the distillery capacity to 100 kilo litres per day (KLPD) from 75-KLPD syrup and replace the old distillation plants (Unit No-III- 30 KLPD and 20 KLPD ENA) with a new distillation plant of 55 KLPD. The capex will result in high debt levels and subdued coverage indicators in FY2022 and FY2023. Further, the high working capital intensity due to the increased inventory levels continue to weaken the liquidity position, evident from the near full utilisation of the working capital limits in the last 12 months. Hence, the rating is constrained by RPSSK's weak financial risk profile, characterised by high leverage and weak coverage indicators mainly on account of elevated debt levels. Further, the subsidy and power receivables as of March 2021 have also constrained the liquidity. The rating also notes the inherent cyclicality and agro-climatic risks in sugar operations, along with its vulnerability to Government regulations.

The rating, however, continues to factor in the company's extensive track record of operations, along with adequate cane availability over the years owing to its presence in a cane-rich region. Further, the forward-integrated operations into distillery and co-generation provides some cushion against the cyclical sugar revenues. ICRA notes that the sustained favourable Government policy framework such as introduction of the minimum selling price (MSP), interest subvention loans for ethanol capacity creation/ expansion, export subsidy to address the demand-supply situation in the domestic market supports the company's financial profile.

The Stable outlook on the rating reflects ICRA's expectation that sugar realisation will remain stable in the near term, aided by the ongoing structural changes in the industry, the balanced global demand-supply position and beneficial policies. The favourable ethanol pricing regime and the higher-than-expected production of ethanol from B-heavy molasses and sugar juice that have better realisations are likely to support the company's operating profitability, going forward.

Key rating drivers and their description

Credit strengths

Long operating history in sugar business - RPSSK has demonstrated strong operating efficiencies over the years. The promoters have a longstanding experience in the sugar industry and wide acceptance among local farmers, which facilitates adequate and timely cane procurement and ensures adequate crushing period. Established relationships with farmers in its command area, along with various support initiatives and timely payments, ensures a good quality supply. Further, the recovery rate remains one of the highest in Maharashtra owing to good quality cane in the command area with favourable climatic conditions, fertile soil, cane development activities and adequate irrigation facilities.

Forward integration of operations provides some cushion against cyclicality in sugar business - The company's 17,000-tonne crushed per day (TCD) sugar operations are fully integrated with its 40-megawatt (MW) power generation plant and 75-kilo litres per day (KLPD) distillery plant, which are additional revenue sources and provide some comfort to its profitability against the cyclicality in the sugar business. Further, the company is in the process of expanding its distillery capacity to 100 KLPD from 75KLPD, which is likely to be operational from October 2022. Also, RPSSK is a large manufacturer of Indian-made foreign liquor (IMFL) and country liquor in the co-operative sector of Maharashtra, with a production capacity of 6,200 cases per day.

Favourable policy framework – The Government of India (GoI) has been supporting the sugar industry through various measures such as introduction of MSP, interest subvention loans for ethanol capacity creation and expansion, soft loans for clearing cane dues, export subsidy and creation of sugar buffer stock to address the demand-supply situation in the domestic market. Additionally, the GoI preponed the ethanol blending programme timeline to 2025 from 2030 for 20% mandatory blending of ethanol with petrol. Over the years, the GoI has supported the blending programme by fixing the prices of ethanol manufactured through varied sugarcane-based feedstocks at the beginning of each ethanol supply year and has also announced annual hikes. Favourable pricing, coupled with a shorter credit period for ethanol supplies, has supported the profits and cash accruals of various medium to large-sized sugar mills, besides reducing their working capital intensity to some extent.

Credit challenges

High gearing and weak debt coverage indicators; coverage indicators to remain muted due to debt-funded capex – The gearing remained high at 10.3 times as on March 31, 2021 owing to the high debt levels. Further, the coverage indicators remained weak with total debt/OPBIDTA of 7.8 times, NCA/TD at 4% and interest coverage of 1.4 times in FY2021 due to high debt levels and interest cost. Also, the repayment obligation for FY2022 and FY2023 remains high at Rs. 95.18 crore and Rs. 60.15 crore, respectively. Considering the large debt-funded capex towards the distillery, the company's coverage metrics may deteriorate going forward. This will also significantly increase the repayment obligation once the new loans are availed and the repayments begin from FY2024.

Stretched liquidity position – As inherent in the sugar business, the company's working capital intensity remained high with NWC/OI at 57.3% as on March 31, 2021 because of the high inventory holdings, subsidy receivables and power dues, resulting in increased debt levels. The inventory days remained high at 286 days as on March 31, 2021 owing to sizeable sugar inventory and sales depending on the quota assigned to the company. The receivable days were high at 65 days as on March 31, 2021 mainly due to the subsidy receivable of Rs. 106.2 crore and power dues of Rs. 31.7 crore. The high debt levels led to weak debt coverage metrics and a stretched liquidity position.

Risks associated with a regulated industry – RPSSK's profitability is vulnerable to the Government's policies and schemes such as creation of buffer stock, export subsidies, mandatory blending of ethanol and its pricing, sugar pricing, etc. Hence, cessation of any subsidies/schemes or any material decrease in sugar or ethanol pricing would have an impact on the company's financials. Nonetheless, the recent measures taken by the Central and the state government supported the financial performance and liquidity of sugar mills.

Agro-climatic risks and cyclical trends in sugar business – Being an agri-commodity, the sugarcane crop depends on climatic conditions and is vulnerable to pests and diseases, which may affect the yield per hectare and the recovery rate. These factors can have a significant impact on the company's profitability. In addition, the cyclicality in sugar production results in a volatility in sugar prices. However, the sharp fluctuations in sugar prices have been curtailed after the introduction of minimum selling price (MSP) for sugar by the Central Government in June 2018. Over the long term, higher ethanol production with increased use of B-heavy molasses and direct sugar juice are expected to help in curtailing the excess sugar inventory, resulting in lower volatility in sugar prices and in turn, cash flows from the business.

Liquidity position: Stretched

RPSSK has a stretched liquidity profile owing to the high working capital requirements and sizeable debt repayments. Further, the debt-funded capex will significantly increase the repayment obligation once the new loans are availed and the repayments begin from FY2024. Going forward, its ability to generate adequate cash accruals will remain critical for improving its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if RPSSK is able to improve its liquidity position along with an improvement in the leverage and coverage indicators on a sustained basis.

Negative factors – Negative pressure on the rating could emerge if there is any significant decline in sugar prices or recovery rate, or increase in cane costs, weakening the company's profitability and debt coverage metrics. Moreover, inability to improve its liquidity position may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement

About the company

RPSSK was established in 1968 under the Maharashtra Co-operative Society Act, 1960 as Walwa Taluka Sahakari Sakhar Karkhana Limited to undertake sugar production in Sangli, Maharashtra. The name was subsequently changed to Rajarambapu Patil Sahakari Sakhar Karkhana Limited. RPSK is a part of the Sangli-based Rajarambapu Group, which is present in businesses like sugar, dairy and co-operative banking. RPSSK has sugar mills at four locations - Sakhrale, Wategaon, Karandwadi and Jath - in Sangli with a total sugarcane crushing capacity of 17,000 TCD along with a 75-KLPD distillery plant and a 40-MW cogeneration unit. Further, the company is in the process of expanding its distillery capacity to 100 KLPD from 75KLPD, which is likely to be operational from October 2022.

In FY2021, the company reported a net profit of Rs. 7.0 crore on an operating income (OI) of Rs. 1064.5 crore compared with a net profit of Rs. 6.9 crore on an OI of Rs. 930.2 crore in the previous year.

Key financial indicators

	FY2020	FY2021
Operating Income (Rs. crore)	930.2	1064.5
PAT (Rs. crore)	6.9	7.0
OPBDIT/OI (%)	10.6%	9.6%
PAT/OI (%)	0.7%	0.7%
Total Outside Liabilities/Tangible Net Worth (times)	15.5	15.1
Total Debt/OPBDIT (times)	7.6	7.8
Interest Coverage (times)	1.4	1.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA:

CARE B-; ISSUER NOT CO-OPERATING as on September 13, 2021

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Nov 30, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Feb 25, 2022	Nov 27, 2020	Jun 10, 2019	-
1	Cash Credit	Long Term	500.00	-	**[ICRA]B+ (Stable)**	**[ICRA]BB- (Stable)**	**[ICRA]BB- (Stable)**	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	500.00	**[ICRA]B+ (Stable)**

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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