May 16, 2023

Padmashri Dr. Vitthalrao Vikhe Patil Sahakari Sakhar Karkhana Limited: Rating Removed from ISSUER NOT COOPERATING category; Rating upgraded to [ICRA]B+(Stable) and simultaneously withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based - Term Loan	135.00	135.00	[ICRA]B+(Stable); rating upgraded from [ICRA]D and removed from Issuer Not Cooperating category and simultaneously withdrawn
Long Term – Fund Based - Cash Credit	413.00	413.00	[ICRA]B+(Stable); rating upgraded from [ICRA]D and removed from Issuer Not Cooperating category and simultaneously withdrawn
Total	**548.00**	**548.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating upgrade for Padmashri Dr. Vitthalrao Vikhe Patil Sahakari Sakhar Karkhana Limited (PSSK) factors in the timely repayment of debt obligations over the last one year along with an improvement in its profitability and liquidity position with the liquidation of sugar inventory. The rating favourably factors in PSSK's extensive track record of operations, along with adequate cane availability over the years, ensuring sufficient crushing levels. Further, the forward-integrated operations into distillery and cogeneration along with a bottling plant of Indian Made Indian Liquor (IMIL) provide cushion against the cyclical sugar revenues. ICRA notes that around 50% of the company's revenue is derived from distillery and IMIL, moderating the impact of seasonality in cash flows from sugar crushing operations that are limited to the second half of any fiscal. ICRA notes that sustained favourable Government policies, such as the introduction of minimum selling price (MSP), interest subvention loans for ethanol capacity creation/expansion and timely price revisions for ethanol support the company's financial profile.

The rating, however, continues to be constrained by PSSK's weak financial risk profile, characterised by its high leverage and weak coverage indicators due to high reliance on external debt even as the company has reduced the debt levels over the previous years. Further, the repayment obligations remain high for the company, though it is expected to be met through cash accruals, free liquid balance and unsecured loan infusion by the promoters. The rating also considers the inherent cyclicality and agro-climatic risks in sugar operations, along with its vulnerability to Government regulations.

The Stable outlook on the rating reflects ICRA's expectation that the company will benefit from stable cash flows on the back of increased revenue contribution from the distillery, where the credit period is shorter. A favourable ethanol pricing regime and 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.

The long-term rating assigned to the bank facilities of PSSK has been withdrawn at the request of the company following the submission of a no-objection certificate from the bankers, and in accordance with ICRA's policy on withdrawal.

Key rating drivers and their description

Credit strengths

Long operating track record in sugar business - PSSK has had strong operating efficiencies over the years. The promoters have a long-standing experience in the sugar industry and wide acceptance among local farmers, which facilitates adequate and timely cane procurement, ensuring an adequate crushing period. The established relationships with farmers in its command area, the various support initiatives and timely payments ensure good quality supply.

Forward integration of operations cushions against cyclicality in sugar business - The company's 7,000-tonnes-crushed-per-day (TCD) sugar operations are fully integrated with its 30-megawatt (MW) power generation plant and a 120-KLPD distillery. The company also has an IMIL bottling plant. Nearly 50% of the company's revenue is derived from ethanol, power sales and IMIL bottling. The company also has committed supplies for ethanol from oil marketing companies (OMCs), which provides comfort.

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 and export subsidy, besides soft loans for clearing cane dues and creation of sugar buffer stock in the previous years. Additionally, the GoI preponed the ethanol-blending programme timeline to 2025 from 2030 for 20% mandatory blending of ethanol with petrol and introduced additional excise duty on unblended petrol, effective from October 1, 2022. 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 price revisions. 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 – The gearing of PSSK remained high at 3.1 times as on December 31, 2022 though improving from 8.1 times as on March 31, 2022, owing to an improved net worth position and lower debt levels. Further, the coverage indicators remained weak with total debt/OPBIDTA of 5.0 times, NCA/TD at 20% and interest coverage of 2.2 times as on December 31, 2022, due to high debt levels, though the company is making conscious efforts to improve the coverage metrics in the near to medium term. The repayment obligations remain high for the company, though it is expected to be met through net cash accruals and unsecured loan infusion by the directors. Further, with increasing operating efficiency, the company will be able to improve its operating profit margin in the near to medium term.

Risks in regulated industry – PSSK'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 will have an impact on the company's financials. Nonetheless, the Central and state Government's recent measures 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 GoI introduced MSP for the sweetener in June 2018. Over the long term, higher ethanol production with increased use of B-heavy molasses and direct sugar juice is expected to help curtail the excess sugar inventory, resulting in lower volatility in sugar prices and in turn, cash flows from the business.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Sugar Policy on withdrawal of Credit rating
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Padmashri Dr. Vitthalrao Vikhe Patil Sahakari Sakhar Karkhana Limited was set up in 1950 under the Maharashtra Cooperative Societies Act, 1960, as a role model for the development of a newly independent India through the cooperative movement. PSSK, the first sugar factory set up in the cooperative sector in Asia, is located in the Pravaranagar village in Ahmednagar (Maharashtra). The company has over 12,500 cane grower members and over 18,000 non-producer members. It undertook its first crushing in 1950-1951 with a crushing capacity of 500 tonnes crushed per day (TCD). The crushing capacity was subsequently enhanced in stages, with the present installed capacity of 7,000 TCD. The company also has a multipressure distillery unit with a capacity of 120 KLPD.

Key financial indicators (audited)

	FY2021	FY2022	9M FY2023
Operating income	510.7	899.5	476.2
PAT	21.4	10.2	48.6
OPBDIT/OI	4.5%	2.9%	10.9%
PAT/OI	4.2%	1.1%	10.2%
Total outside liabilities/Tangible net worth (times)	18.4	12.5	5.3
Total debt/OPBDIT (times)	21.7	17.0	5.0
Interest coverage (times)	0.5	0.6	2.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
CRISIL	CRISIL D (ISSUER NOT COOPERATING*)	September 26, 2022

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022			Date & rating in FY2021	
				May 16, 2023	Nov 29,2022	Oct 22,2021	Aug 16,2021	Jun 15,2021	Jul 24, 2020	May 18,2020
1 Term Loan	Long - term	135.00	66.36	[ICRA]B+ (Stable); Withdrawn	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D	[ICRA]BB(Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING
2 Cash Credit	Long - term	413.00	-	[ICRA]B+ (Stable); Withdrawn	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D; ISSUER NOT COOPERATING	[ICRA]D	[ICRA]BB(Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	NA	NA	NA	413.00	[ICRA]B+(Stable); Withdrawn
NA	**Term Loan-I**	Sept-2010	12.85%	Sept-2026	84.35	[ICRA]B+(Stable); Withdrawn
NA	**Term Loan-II**	Sept-2015	15.30%	Mar-2022	8.28	[ICRA]B+(Stable); Withdrawn
NA	**Term Loan-III**	Jun-2019	16.75%	May-2024	25.5	[ICRA]B+(Stable); Withdrawn
NA	**Proposed Term Loan-IV**	NA	NA	NA	16.87	[ICRA]B+(Stable); Withdrawn

Source: Company

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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