November 26, 2024

Bhaurao Chavan Sahakari Sakhar Karkhana Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Working capital facilities	194.00	142.75	[ICRA]B+ (Stable); reaffirmed
Long-term- Fund based- Term loan	131.00	182.25	[ICRA]B+ (Stable); reaffirmed
Total	**325.00**	**325.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating continues to be constrained by Bhaurao Chavan Sahakari Sakhar Karkhana Limited's (BCSSKL) weak financial risk profile, characterised by high leverage and weak coverage indicators due to a strong reliance on external debt. Further, repayment obligations for the company remain high, though it is expected to be met through operational cash flows and refinancing of debt. Moreover, with low cash accruals, the refinancing requirement will remain crucial. The rating also considers the inherent cyclicality and agro-climatic risks in sugar operations, along with its vulnerability to Government regulations.

The rating, however, favourably factors in BCSSKL'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 provide cushion against the cyclical sugar revenues. 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 Stable outlook on the rating reflects ICRA's expectations 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. Firmed-up sugar realisations in the near term and favourable Government policies on ethanol diversion will support the company's operating profitability, going forward.

Key rating drivers and their description

Credit strengths

Long operating track record in sugar business - BCSSKL has had comfortable operating efficiencies over the years. The promoters have long experience in the sugar industry and wide acceptance among local farmers, which facilitates adequate and timely cane procurement. This ensures an adequate crushing period. The company's established relationships with farmers in its command area, along with various support initiatives and timely payments, ensure good quality supply.

Forward integration of operations cushions against cyclicality in sugar business - The company's 5,300-tonnes-crushed-per-day (TCD) sugar operations are integrated with its 60-KLPD distillery plant. Nearly 15-20% of the company's revenue is derived from the distillery business, reducing the impact of the sugar operation's seasonality to an extent. The company also has committed supplies for ethanol from oil marketing companies (OMCs), which provide 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, soft loans for clearing cane dues, policy intervention to address the demand-supply situation in the domestic market. Additionally, the GoI has preponed the ethanol-blending programme timeline to 2025 from 2030 for 20% mandatory blending of ethanol with petrol. Over the years, the GoI has been 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, 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

Weak financial risk profile and high working capital intensity - The financial risk profile of the company has been weak with moderate operating margins and high gearing, mainly due to the low net worth and elevated debt levels. In FY2024, despite the increase in profitability, the coverage indicators remained weak with an interest coverage ratio of 1.3 times, TD/OPBDITA of 9.7 times and DSCR of 0.7 times. The repayment obligations remain elevated in the near to medium term, due to the high long-term debt. Moreover, the refinancing requirement will remain crucial with low cash accruals. The working capital intensity of the company remained high at 65% in FY2024 due to increased inventory levels.

Risks in regulated industry - BCSSKL's profitability, along with other sugar mills, continues to be vulnerable to the Central Government's policy on cane prices, sugar international trade, domestic quota, sugar MSP, remunerative ethanol prices, diversion towards ethanol and interest subvention loan for distillery capacity expansion. Thus, the company's performance can be adversely impacted by a disproportionate increase in cane prices in any particular year. The continuation of the Government support through remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. However, the fair remunerative prices (FRP) increased by Rs. 10/quintal for SY2024 and Rs. 25/quintal in SY2025, which could limit profitability. Nevertheless, firmed up domestic prices and increased contribution from ethanol supplies are likely to offset this risk to some extent for integrated sugar mills.

Agro-climatic risks and cyclical trends in sugar business- Being an agricultural 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 volatility in sugar prices. However, the sharp fluctuations in sugar prices have been curtailed after the GoI introduced MSP for sugar in June 2018. Over the long term, higher ethanol production with increased use of B-heavy molasses is expected to help curtail excess sugar inventory, leading to lower volatility in sugar prices and in turn, cash flows from the business.

Liquidity position: Stretched

BCSSKL has a stretched liquidity profile owing to high working capital requirements, though utilisation of the working capital limits remains comfortable. Further, the repayment obligation remains high, while the cash accruals are low. Going forward, BCSSKL's ability to generate adequate cash accruals will be critical to improve its liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade BCSSKL's rating if there is sustained improvement in its earnings, debt coverage indicators and liquidity profile.

Negative factors – Pressure on the rating could emerge if any significant decline in revenue and profitability, along with a significant drop in the ethanol business further weakens its debt coverage metrics. Weakening of the liquidity position may trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Sugar Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the company

About the company

BCSSKL was incorporated in 1990. It is a co-operative sugar factory with about 18,500 farmers as members. BCSSKL operates as an integrated sugar player with a cane crushing capacity of 5,300 tonnes crushed per day (TCD) and distillery capacity of 60 kilo litres per day (KLPD) in Maharashtra. Its chief promoter (and currently a member) is Mr. Ashok Chavan, the ex-Chief Minister of Maharashtra.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	456.7	310.7
PAT	-17.6	2.0
OPBDIT/OI	3.4%	11.4%
PAT/OI	-3.8%	0.6%
Total outside liabilities/Tangible net worth (times)	-24.9	90.5
Total debt/OPBDIT (times)	15.8	9.7
Interest coverage (times)	0.6	1.3

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Working Capital Facilities	Long-term	142.75	Nov 26, 2024	[ICRA]B+ (Stable)	Aug 21, 2023	[ICRA]B+ (Stable)	Oct 28, 2022	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	Jul 30, 2021	[ICRA]B+ (Stable)
Term Loan	Long-term	182.25	Nov 26, 2024	[ICRA]B+ (Stable)	Aug 21, 2023	[ICRA]B+ (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Working Capital Facilities	Simple
Long Term- Fund Based- Term Loan	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	Long-term – Fund based – Working capital facilities	NA	NA	NA	142.75	[ICRA]B+ (Stable)
NA	Long-term- Fund based- Term loan	FY2021	NA	FY2030	182.25	[ICRA]B+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

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

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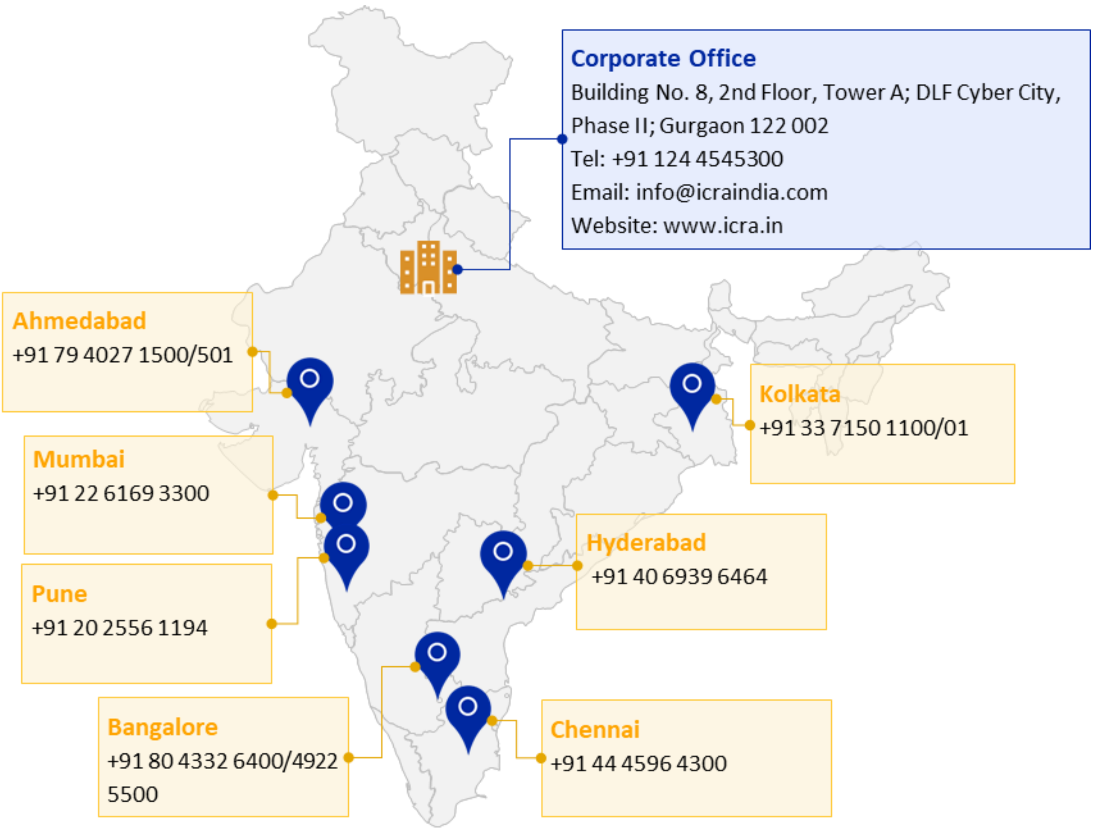

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