March 24, 2025

Shamanur Sugars Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term – Fund-based – Term loan	49.15	49.15	[ICRA]BB (Stable); reaffirmed
Long term – Fund-based – Cash credit	64.00	64.00	[ICRA]BB (Stable); reaffirmed
Long term – Unallocated limits	6.85	6.85	[ICRA]BB (Stable); reaffirmed
Total	**120.00**	**120.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation of Shamanur Sugars Limited (SSL) factors in its extensive track record of operations, along with adequate cane availability over the years, ensuring sufficient crushing levels. The company's crushing levels moderated in SY2024 due to below-average rainfall in Karnataka, but the crushing levels are expected to improve in SY2025. Further, the forward-integrated operations into distillery and co-generation provide cushion against the cyclicality in sugar revenues. ICRA notes that the company derives around 58% of its revenue from the distillery business, thereby reducing the effect of sugar's seasonality. Moreover, 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 continues to be constrained by SSL's moderate financial risk profile, characterised by its high leverage and average debt coverage indicators due to the high reliance on external debt. The commercialisation of the 120-KLPD distillery in FY2024 has strengthened the company's operational profile and improved the revenue diversification. Thus, the total borrowings are expected to moderate, going forward, with loan repayments and enhanced cash flows, ensuring improved coverage metrics. The working capital intensity remains high due to elevated inventory levels, resulting in almost full utilisation of the working capital limits despite some cushion against its drawing power.

The rating also considers the inherent cyclicality and agro-climatic risks in sugar operations, along with the segment's 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. Firm sugar realisation in the near term and favourable policies will also support the rating.

Key rating drivers and their description

Credit strengths

Long operating track record in sugar business - The promoters have a longstanding experience in the sugar industry and wide acceptance among local farmers, which facilitates sufficient and timely cane procurement and ensures an adequate crushing period. The established relationships with farmers in its command area, along with the various support initiatives and timely payments, ensure good quality supply.

Forward integration of operations cushions against cyclicality in sugar business – The company's 2,500-tonnes-crushed-per-day (TCD) sugar operations are fully integrated with its 22-megawatt (MW) power generation plant and a 120-KLPD distillery plant. Nearly 58% of the company's revenue is derived from the distillery business, considerably reducing the impact of the sugar operation's seasonality. The company also has committed supplies for ethanol from oil marketing companies (OMCs) and extra neutral alcohol (ENA) from distilleries, which provide comfort.

Favourable policy framework – The Government of India (GoI) has been supporting the sugar industry through various measures such as the 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 been supporting 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

Moderate financial risk profile - The gearing remained high at 1.7 times as on March 31, 2024, mainly due to the reliance on working capital borrowings. Further, the coverage indicators remained moderate with total debt/OPBIDTA of 6.9 times, NCA/TD at 7.9% and interest coverage of 2.1 times in FY2024. However, of the total debt of Rs. 217.9 crore, the external debt was Rs. 189.4 crore as on March 31, 2024; therefore, the external debt/OPBDITA stood at 6.0 times and gearing at 1.5 times. Considering the large debt-funded capex towards the distillery, the repayment obligations will be high in FY2026. Hence, SSL's ability to generate adequate cash accruals will remain critical to meet its debt repayment obligations.

Risks in regulated industry – SSL's profitability, along with other sugar mills, continues to be vulnerable to the Central Government's policy on cane prices, international sugar 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 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 the profitability. Nevertheless, firm domestic prices and increased contribution from ethanol supplies are likely to offset this risk to some extent for the 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 the excess sugar inventory, leading to lower volatility in sugar prices and in turn, cash flows from the business.

Liquidity position: Stretched

The company's liquidity position remains stretched owing to the high working capital requirements and limited cushion available in its working capital limits. Therefore, any enhancement in the working capital limits will be necessary to support an increase in the company's scale of operations. With high dependence on short-term debt, a timely refinancing of its debt will remain crucial. Going forward, SSL's ability to generate adequate cash accruals will remain critical to meet its debt repayment obligations of Rs. 18.75 crore in FY2026.

Rating sensitivities

Positive factors – ICRA could upgrade SSL's rating in case of an improvement in its liquidity position, profitability and debt coverage indicators. A specific metric for upgrade would be interest cover of more than 2.8 times on a sustained basis.

Negative factors – Pressure on the rating could arise if the company witnesses a sharp deterioration in its revenues and profitability that would weaken the debt coverage metrics. Further, any stretch in the working capital cycle that weakens the liquidity position, or any significant increase in indebtedness may trigger a downward rating action.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Sugar
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statement

About the company

Shamanur Sugars Limited (SSL) was established in 1999 with a total sugarcane crushing capacity of 2,500 TCD along with a 120-KLPD distillery plant and a 22-MW co-generation unit at the Duggavathi village of Harpanahalli taluk in Karnataka.

Key financial indicators (audited)

Shamanur Sugars Limited (Standalone)	FY2023	FY2024	9M FY2025*
Operating income	272.5	257.5	224.7
PAT	5.4	1.2	1.8
OPBDIT/OI	13.7%	12.2%	12.4%
PAT/OI	2.0%	0.5%	0.8%
Total outside liabilities/Tangible net worth (times)	2.0	2.2	1.8
Total debt/OPBDIT (times)	5.9	6.9	5.7
Interest coverage (times)	2.1	2.1	2.0

*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*

Status of non-cooperation with previous CRA:

Other credit rating agency	Ratings	PR Date
CARE	CARE B-; Stable; ISSUER NOT COOPERATING/CARE A4; ISSUER NOT COOPERATING	January 20, 2025
Brickworks	BWR B/Stable; ISSUER NOT COOPERATING/BWR A4; ISSUER NOT COOPERATING	March 08, 2024

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
Term loan	Long term	49.15	Mar 24, 2025	[ICRA]BB (Stable)	Feb 16, 2024	[ICRA]BB (Stable)	Jan 20, 2023	[ICRA]BB- (Stable)	Mar 21, 2022	[ICRA]BB- (Stable)
Cash credit	Long term	64.00	Mar 24, 2025	[ICRA]BB (Stable)	Feb 16, 2024	[ICRA]BB (Stable)	Jan 20, 2023	[ICRA]BB- (Stable)	Mar 21, 2022	[ICRA]BB- (Stable)
Unallocated limits	Long term	6.85	Mar 24, 2025	[ICRA]BB (Stable)	Feb 16, 2024	[ICRA]BB (Stable)	Jan 20, 2023	[ICRA]BB- (Stable)	Mar 21, 2022	[ICRA]BB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term – Fund-based – Term loan	Simple
Long term – Fund-based – Cash credit	Simple
Long term – Unallocated limits	Not Applicable

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 – Term loan**	NA	NA	NA	49.15	[ICRA]BB (Stable)
NA	**Long term – Fund-based – Cash credit**	NA	NA	NA	64.00	[ICRA]BB (Stable)
NA	**Long term – Unallocated limits**	NA	NA	NA	6.85	[ICRA]BB (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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Vikram V
+91 40 6939 6410
vikram.v@icraindia.com

Rachit Mehta
+91 22 6169 3328
rachit.mehta2@icraindia.com

Menka Sabnani
+91 79 6923 3003
menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

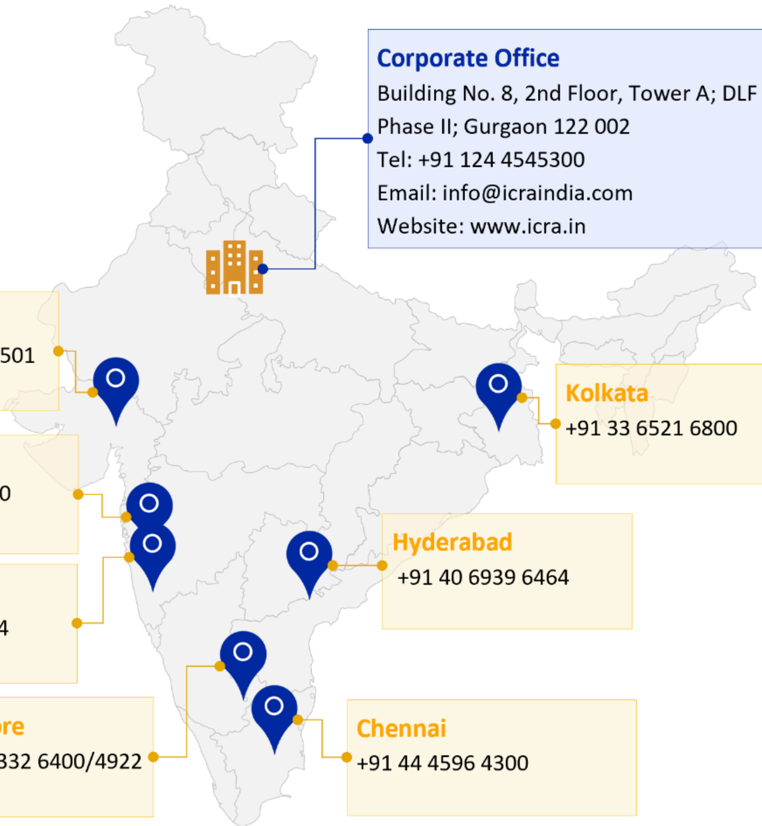
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Ahmedabad
+91 79 4027 1500/501

Mumbai
+91 22 6169 3300

Pune
+91 20 2556 1194

Bangalore
+91 80 4332 6400/4922 5500

Kolkata
+91 33 6521 6800

Hyderabad
+91 40 6939 6464

Chennai
+91 44 4596 4300

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.