

September 07, 2022

Shakti Sugar Mill Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund Based – Term Loan	26.06	26.06	[ICRA]BBB+(Stable); reaffirmed
Long-Term Fund Based – Cash Credit	12.00	12.00	[ICRA]BBB+(Stable); reaffirmed
Short-Term Fund Based – Working Capital Facilities	19.42	19.42	[ICRA]A2; reaffirmed
Total	57.48	57.48	

*Instrument details are provided in Annexure I

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the following five entities – Narmada Sugars Private Limited (NSPL), Ramdev Sugars Private Limited (RSPL), Shrijee Sugar and Power Private Limited (SSPPL), Shakti Sugar Mill Private Limited (SSMPL) and Hanumant Sugars Private Limited (HSPL). These entities, collectively referred here as the Maheshwari Group, have a common management, are in the same line of business, and have significant business and financial linkages.

The rating reaffirmation factors in the favourable location of the sugar mills of the Maheshwari Group in proximity to the key sugarcane growing areas of Madhya Pradesh and its established relations with farmers, which ensure adequate cane availability for the Group. The ratings also draw comfort from the integration of the sugar operations with the power cogeneration and distillery business, which provides the necessary cushion to the Group's profitability against the cyclicity in sugar operations. The ratings also consider the Group's healthy profitability and adequate debt coverage indicators, and the continued Government support to the sugar industry through various favourable policies.

The ratings, however, are constrained by the Group's high working capital intensity, mainly because of the year-end sugar inventory build-up and the vulnerability of its profitability to the volatility in sugar price movements. Additionally, significant loans and advances provided to entities other than those considered for consolidation also constrain the rating. The ratings also factor in the industry risks such as exposure to the inherent cyclicity in the sugar industry, the agro-climatic 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 Group would be able to ensure adequate cane availability, given its strong relations with farmers, and maintain healthy revenues and profitability, supported by its integrated operations.

Key rating drivers and their description

Credit strengths

Favorable location and integrated sugar operations- The Group's sugar mills are in proximity to the sugarcane growing areas of Madhya Pradesh, resulting in adequate cane availability and low transportation cost. Also, the sugar realisations are better because of being located in a sugar-deficit state. Over the years, the Group has significantly increased its cane crushing capacity, which currently stands at 17,500 tonnes crushed per day (TCD), which is expected to be increased to 19,500 TCD by FY2023. The Group has reported high crushing volumes, averaging around 1.7 million MT in the last three years. Moreover, all the five companies of the Group have power co-generation units for captive consumption, which leads to savings in power costs and extra revenue from the sale of surplus power, in the case of NSPL. The Group also benefits from the 60-kilolitre-per-day (KLPD) distillery under NSPL which will be enhanced by 100 KLPD in FY2023, and the 45-KLPD distillery under Shrijee Sugar and Power Private Limited, which provides an additional revenue stream and cushions the operating profitability from the inherent cyclicity in the sugar business.

Healthy profit margins and comfortable capitalization and debt coverage indicators- The Group has reported healthy operating profit margins, (OPM) in the range of 13-14% in the last three fiscals, supported by its integrated operations and relatively low overheads. The net profitability also stood healthy at 10% in FY2022 (provisional numbers), improving from 6% in FY2020, backed by a sharp decline in interest expense as the high-cost borrowing was replaced by a relatively low cost borrowing (by availing a Guaranteed Emergency Credit Line loan) along with interest subvention received on the ethanol loan. Additionally, the Group's capitalisation and debt coverage indicators remained adequate, with gearing of ~0.64 times and interest coverage of above 8.0 times as on March 31, 2022 (provisional numbers). ICRA expects the profitability and debt coverage indicators to be sustained at similar levels over the near to medium term.

Favourable policy framework supports profits and cash accruals – The Government of India (GoI) has supported the sugar industry in the past 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 relatively shorter credit period for ethanol supplies, has supported the profits and cash accruals of various medium to large-sized sugar mills.

Credit challenges

High working capital intensity- As is inherent in the sugar industry, the Group's inventory levels remain on the higher side because of the seasonal nature of the business. The build-up of sugar stock reaches its peak at fiscal-end (March), resulting in high working capital requirements. The NWC/OI was 18% as on March 31, 2022 with high inventory built-up, though the same was supported by adequate sanctioned working capital limits along with sizeable unsecured loans from promoters to meet its working capital requirements. Additionally, there is cash flow fungibility among the five entities considered for consolidation, wherein funding support is provided to each other through infusion of loans/advances on a need basis. Nevertheless, timely liquidation of the high sugar stocks at adequate prices remains critical for the Group's profitability and liquidity.

Significant loans and advances to Group companies- The loans and advances to entities other than those considered for consolidation has increased YoY to Rs. 151.3 crore in FY2022 from Rs. 79.91 crore in FY2021. All the surplus funds in the form of accruals, unsecured loans and bank borrowings are provided to the Group companies as loans and advances to support their working capital/capex requirements, though the same will be reduced to some extent by April next year. Any significant outflow of funds in the form of loans and advances to Group companies which impacts the consolidated liquidity of these five entities would remain a key monitorable.

Risks of operating in a regulated industry – The Group'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 impact 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.

Sugar mills remain vulnerable to industry's cyclical and agro-climatic risks – Being an agri-commodity, sugarcane depends on weather conditions and is vulnerable to pests and diseases that may affect the yield per hectare and recovery rate. These factors can have a significant impact on the Group's profitability. Additionally, the cyclical in sugar production results in significant volatility in prices. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice will likely curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Liquidity position: Adequate

The Group's liquidity position is adequate. The Group's cash flows are expected to be adequate to comfortably service its term loan repayment obligations over the medium term. The Group's liquidity is further supported by the unutilised cash credit limit

with an average utilisation of 26% of the limits for the 12-month period ended April-22 and warehouse receipt facility of Rs. 14.90 crore as on March 31, 2022. Additionally, there is cash flow fungibility among the five entities considered for consolidation, wherein funding support is provided to each other through infusion of loans/advances on a need basis. The promoters have also supported the entities through regular infusion of unsecured loans to meet the working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the Maheshwari Group demonstrates a healthy increase in revenues and profitability, resulting in an overall improvement in the cash accruals and debt protection metrics on a sustained basis. A sustained improvement in the operating cycle, resulting in enhanced liquidity, may also trigger a rating upgrade.

Negative factors – Negative pressure on the ratings could emerge if any significant decline in sugar prices or recovery rate, or increase in cane costs, impacts the Group's profitability and debt coverage metrics on a sustained basis. A specific metric, leading to negative rating action, could be the interest coverage ratio falling below 3 times on a sustained basis. Further, any significant outflow in the form of loans and advances to entities other than those considered for consolidation, which impacts the consolidated liquidity, may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry Consolidation and Rating Approach
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the rating, ICRA has combined the business and financial risk profiles of Narmada Sugars Private Limited (NSPL), Ramdev Sugars Private Limited (RSPL), Shrijee Sugar and Power Private Limited (SSPPL), Shakti Sugar Mill Private Limited (SSMPL) and Hanumant Sugars Private Limited (HSPL). These entities collectively referred to herein as the Maheshwari Group, have a common management, are in the same line of business, and have significant business and financial linkages.

About the company

NSPL commenced operations in 1992 at its Khandsari unit in the Narsinghpur district of Madhya Pradesh, with a capacity of 200 tonnes crushed per day (TCD). The cane crushing capacity has gradually increased over the years and currently stands at 5,000 TCD. The company's sugar operations are further supported by a bagasse-based co-generation power plant of 30 MW and a distillery unit with an ethanol manufacturing capacity of 60 kilolitres per day (KLPD) which will be further enhanced by 100 KLPD in FY2023. NSPL is a part of the Madhya Pradesh-based Maheshwari Group. The Group is promoted by Mr. Navneetlal Maheshwari and Mr. Rajesh Maheshwari. The entire operations of the Group are managed by the members of the Maheshwari family.

NSPL, along with four other companies of the Maheshwari Group viz. RSPL, SSPPL, SSMPL and HSPL, has a combined capacity of 17,500 TCD which will be enhanced to 19,500 TCD in FY2023. All the five entities operate in the fertile areas of Madhya Pradesh, where the climatic conditions are conducive for sugarcane cultivation, and irrigation is mainly through tube wells. The profiles of the four entities are provided below.

Ramdev Sugars Private Limited (RSPL): Started operations in 2000 and has a capacity of 3,500 TCD. It also has a bagasse-based captive power plant of 3 MW capacity. The company's unit is in the Hoshangabad district of Madhya Pradesh.

Shrijee Sugar and Power Private Limited (SSPPL): Started its operations in 2012 and has a capacity of 2,500 TCD. It also has a bagasse-based captive power plant of 2.5 MW capacity and a 45-KLPD distillery unit. The company's unit is in the Betul district of Madhya Pradesh.

Hanumant Sugars Private Limited (HSPL): Started operations in 2016 and has a capacity of 2,500 TCD. It also has a bagasse-based captive power plant of 2.5-MW capacity. The company's unit is in the Betul district of Madhya Pradesh.

Shakti Sugar Mill Private Limited (SSMPL): Started operations in 2007 and has a capacity of 4,000 TCD which will be enhanced to 6,000 TCD in FY2023. It also has a bagasse-based captive power plant of 2.5-MW capacity. The company's unit is in the Narsinghpur district of Madhya Pradesh

Key financial indicators

Consolidated	NSPL		RSPL		SSPPL		HSPL		SSMPL	
	FY2021	FY2022*	FY2021	FY2022*	FY2021	FY2022*	FY2021	FY2022*	FY2021	FY2022*
Operating income (Rs. crore)	296.41	378.60	89.27	103.23	118.02	152.50	57.06	92.38	129.82	124.73
PAT (Rs. crore)	36.96	53.56	5.16	4.89	9.03	9.70	3.37	3.47	6.74	8.68
OPBDIT/OI (%)	19.50%	18.36%	7.43%	8.21%	8.76%	9.91%	9.45%	8.81%	7.66%	10.77%
PAT/OI (%)	12.47%	14.15%	5.78%	4.74%	7.65%	6.36%	5.90%	3.75%	5.19%	6.96%
Total outside liabilities/Tangible net worth (times)	1.52	0.94	1.00	1.60	1.37	2.65	4.99	5.33	1.46	1.74
Total debt/OPBDIT (times)	2.68	1.53	5.61	8.63	1.30	5.13	3.79	4.17	4.98	5.68
Interest coverage (times)	6.06	6.78	3.34	2.69	14.75	7.70	5.20	8.06	3.19	4.13

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

NSPL: Narmada Sugars Private Limited, RSPL: Ramdev Sugars Private Limited, SSPPL: Shrijee Sugar and Power Private Limited, HSPL: Hanumant Sugars Private Limited, SSMPL: Shakti Sugar Mill Private Limited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Sep 07, 2022			
1	Term Loan	Long-term	26.06	19.89	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
2	Cash Credit	Long-term	12.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-
3	Working Capital Facilities	Short-term	19.42	-	[ICRA]A2	[ICRA]A2	-	-

Amount in Rs. Crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-Term Fund Based – Term Loan	Simple
Long-Term Fund Based – Cash Credit	Simple
Short-Term Fund Based – Working Capital Facilities	Very 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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-Term Fund Based – Term Loan	FY2016	NA	FY2027	26.06	[ICRA]BBB+ (Stable)
NA	Long-Term Fund Based – Cash Credit	NA	NA	NA	12.00	[ICRA]BBB+ (Stable)
NA	Short-Term Fund Based – Working Capital Facilities	NA	NA	NA	19.42	[ICRA]A2

Source: Company; Note: Amount in Rs. Crore

Annexure II: List of entities considered for consolidated analysis:

Company Name	Remarks	Consolidated Approach
Narmada Sugars Private Limited	Group Entity	Full Consolidation
Shrijee Sugar and Power Private Limited	Group Entity	Full Consolidation
Ramdev Sugars Private Limited	Group Entity	Full Consolidation
Hanumant Sugars Private Limited	Group Entity	Full Consolidation

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