

May 28, 2024

Sri Sarvaraya Sugars Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Working capital facilities	55.00	60.00	[ICRA]BBB-(Stable); reaffirmed and assigned for enhanced amount
Long term – Fund based – Term loan	242.32	527.70	[ICRA]BBB-(Stable); reaffirmed and assigned for enhanced amount
Long term – Unallocated limits	2.68	12.30	[ICRA]BBB-(Stable); reaffirmed and assigned for enhanced amount
Fixed deposit programme	20.00	20.00	[ICRA]BBB-(Stable); reaffirmed
Total	320.00	620.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the rating assigned to Sri Sarvaraya Sugars Limited (SSSL) factors in its established position as a leading bottling unit of Coca-Cola India Private Limited (CC IPL) in Andhra Pradesh and the extensive experience of its promoters in the bottling industry. The company had commissioned a new PET bottling facility of 1,000 BPM (bottles per minute) in April 2023, which resulted in healthy revenue growth in 9M FY2024 and improved the operating margin. Its established association with the market leader, Coca Cola India Private Limited, and its sole distribution rights in three major districts of Andhra Pradesh (East Godavari and West Godavari) and Telangana (Khammam district) provide a stable revenue profile for the company.

ICRA takes note of the healthy growth in the company's revenues over the two years ended FY2023, with a year-on-year (YoY) growth of 13.6% and 18.9%, respectively. While the operating margin moderated to 13.4% in FY2023 from 17.1% in FY2022 owing to higher input costs, the profitability is expected to improve, going forward, with the scale-up of operations. Further, the company's debt coverage metrics remain comfortable with a debt service coverage ratio (DSCR) of over 2.0 times, aided by adequate profitability and a modest leverage level.

However, the rating is constrained by the large capex plans of the company, aggregating to over Rs. 462 crore, for setting up a 150-KLPD grain-based distillery (180 KLPD including existing distillery capacity) for Rs. 162 crore and a PET bottling unit for juices for ~Rs. 300 crore. The capex is expected to be funded through a debt of Rs. 340 crore, with the balance through internal accruals. The debt-funded capex is expected to increase the leverage level and moderate the debt coverage metrics to a certain extent in the near term. Nonetheless, the debt metrics are likely to improve once these units stabilise and achieve optimum utilisation. The ability of the company to complete these capex plans within the budgeted timeline and cost, along with a timely ramp-up of operations for the new units, would be a key monitorable.

The Government's policy thrust on increasing ethanol blending with petrol has prompted the company to set up a new grain-based distillery. Also, the rising demand for juices and the non-availability of PET bottling juice unit in its portfolio drove the second major capex plan by the company. Both these projects, once commissioned and stabilised, would enable the company to significantly scale up its revenues and profitability. The profitability also remains susceptible to the seasonality in demand for aerated drinks and the regulatory risks associated with bottling operations.

The Stable outlook on the long-term rating takes note of the stable revenue profile of the bottling division, adequate profitability and comfortable debt coverage metrics, along with SSSL's satisfactory liquidity profile.

Key rating drivers and their description

Credit strengths

Established position as leading bottling unit of CCIPL in Andhra Pradesh; extensive experience of promoters- SSSL, incorporated in 1956 as a sugarcane crushing unit, diversified into the bottling business in 1969 and became a bottler for Coca-Cola in 1995. It has a track record of around 50 years in the bottling industry. The promoters have rich experience in the bottling segment, which has helped the company establish a long-term relationship with customers and suppliers.

Association with CCIPL as franchise bottler - SSSL's association with the established market leader, CCIPL, and its sole distribution rights over three major districts in Andhra Pradesh (East Godavari and West Godavari) and Telangana (Khammam district) have resulted in a stable revenue inflow. While the raw material prices are largely controlled by CCIPL with limited bargaining power for SSSL, CCIPL adjusts the essence prices to some extent so that SSSL's profitability is not significantly impacted.

Dominant market share of CCIPL in carbonated soft drink (CSD) segment- CCIPL has a dominant market share in the CSD segment with established brands such as Coke (Coca-Cola), Thumbs-Up, Sprite, etc. Further, it has a healthy market share in the fruit-based drinks segment with brands such as Maaza and Minute Maid.

Adequate profitability and comfortable debt coverage metrics - The company has been able to maintain adequate profitability over the past three years with RoCE over 15%, supported by growth in the bottling division and shutdown of the loss-making sugar division. The operating profitability moderated in FY2023 over FY2022 despite an increase in revenues amid input cost pressure and lower utilisation of the distillery unit. Nonetheless, the recent scale-up of operations in 9M FY2024 and the stabilisation of input price helped improve the operating margin. Further, the debt coverage metrics remained comfortable, led by a moderate leverage level and adequate profitability.

Credit challenges

Seasonality in demand for aerated drinks and regulatory risks - The demand for aerated drinks is seasonal with SSSL recording higher sales during the summer months and is susceptible to any changes in weather conditions during that period. The risk is partially mitigated by sales of fruit juices, which have a relatively stable demand throughout the year. Moreover, SSSL's distillery unit runs throughout the year. The industry is also susceptible to regulatory risks, considering the increased environmental compliance related to bottling operations.

Capital-intensive nature of bottling division; large capex underway- SSSL is required to invest Rs. ~12-15 crore every year for the maintenance of its bottling division, which involves the replacement of returnable glass bottles, bottle coolers and crates. The ability to generate adequate internal accruals to meet such capex remains important. The company is also undertaking a Rs. 162-crore capex to set up a grain-based distillery unit, funded by a term debt of Rs. 115 crore. Moreover, the company plans to undertake a ~Rs. 300-crore capex to set up a PET bottling unit for juices, which is expected to be funded through a Rs. 225-crore term loan and the remaining through internal accruals. These projects would increase the company's leverage level in FY2025 and FY2026 and moderate the debt coverage metrics to a certain extent. Therefore, the ability of the company to complete these capex plans within the budgeted timeline and cost, along with a timely ramp-up of operations for the new units, would be a key monitorable. The grain-based distillery is scheduled to be commissioned by December 2024/January 2025 and the new PET bottling line by March/April 2025.

Profitability exposed to demand for aerated drinks along with realisation and raw material prices for distillery division - The company's profitability remains susceptible to the demand for aerated drinks, given the growing health awareness among consumers. Also, the profitability depends on the realisation and raw material prices for the distillery division. The realisation for ethanol is sensitive to demand from oil and pharma companies, while the raw material availability and pricing is dependent on other sugar mills in the region.

Liquidity position: Adequate

The company's liquidity profile is expected to remain adequate with estimated cash flow from operations of over Rs. 100 crore in FY2025, against a debt repayment obligation of Rs. 50 crore. The company has sufficient cushion available in its working capital limits, with an average utilisation of nearly 50% of fund-based working capital limits in the last 12 months. Also, the company has ~Rs. 8.66 crore of cash and bank balance as on March 31, 2024, including DSRA of Rs. 5.8 crore. The free cash and surplus generated from operations along with the funding tie-up is expected to be sufficient to meet the ongoing capex requirements.

Rating sensitivities

Positive factors – ICRA could upgrade SSSL's rating if the company is able to achieve a sustained growth in revenues and profitability, along with maintaining healthy credit metrics. Further, the commissioning and stabilisation of operations of the grain-based distillery and bottling line would be a positive trigger.

Negative factors – Pressure on SSSL's rating could arise in case of any deterioration in the performance of the bottling division either due to any adverse regulatory decision or an adverse demand scenario, leading to a sharp decline in cash flows. Cost overrun or any unforeseen delays in completing the projected capex could exert pressure on company's ratings. Specific credit metrics for downgrade include the debt service coverage ratio (DSCR) falling below 1.4x on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Fast Moving Consumer Goods (FMCG)
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company

About the company

SSSL was incorporated in 1956 by Mr. SBPBK Satyanarayana Rao. The company operates a bottling division with four units at Vemagiri, Gopalapuram, Kesavaram and Sathupally in Andhra Pradesh/Telangana and is a franchisee bottler for The Coca Cola Company, USA. It had earlier operated an integrated sugar plant with a crushing unit of 4,000-TCD capacity in the Chelluru district of Andhra Pradesh. The company has shut the cane crushing operations since SY2020 due to lower cane availability in the region. Further, the company discontinued the operations of the molasses-based distillery in FY2024 to convert it into a grain-based distillery and set up an additional grain-based distillery of 150-KLPD capacity. Further, it has a co-generation plant with a capacity of 12.65 MW, which was commissioned in 2008. However, the co-gen unit is operational only to the extent of the captive consumption for the distillery unit owing to unavailability of bagasse.

Key financial indicators (audited)

	FY2022	FY2023	9M FY2024*
Operating income	705.9	839.6	745.8
PAT	57.0	47.7	53.0
OPBDIT/OI	17.1%	13.4%	15.4%
PAT/OI	8.1%	5.7%	7.1%
Total outside liabilities/Tangible net worth (times)	1.0	1.2	-
Total debt/OPBDIT (times)	1.2	2.4	-
Interest coverage (times)	20.8	22.3	9.5

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: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years							
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025		Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	
				May 28, 2024	Sep 12, 2023	Sep 16, 2022	May 31, 2022	Dec 14, 2021	Aug 31, 2021		
1 Fund-based limits	Long Term	60.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	
2 Term loan	Long Term	527.70	187.69	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	
3 Unallocated limits	Long Term	12.30	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	
4 FD programme	Long Term	20.00	20.00	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	MA-(Stable)		MB+(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
Long term – Unallocated limits	NA
Fixed deposit programme	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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan I	October 2021	-	September 2027	21.00	[ICRA]BBB- (Stable)
NA	Term loan II	October 2021	-	September 2027	25.99	[ICRA]BBB- (Stable)
NA	Term loan III	October 2021	-	January 2027	6.77	[ICRA]BBB- (Stable)
NA	Term loan IV	December 2023	-	May 2031	115.00	[ICRA]BBB- (Stable)
NA	Term loan V	September 2022	-	September 2028	110.82	[ICRA]BBB- (Stable)
NA	Term loan VI	December 2022	-	September 2027	0.12	[ICRA]BBB- (Stable)
NA	Term loan VII	January 2023	-	October 2029	0.14	[ICRA]BBB- (Stable)
NA	Term loan VIII	October 2022	-	April 2028	0.21	[ICRA]BBB- (Stable)
NA	Term loan IX	January 2021	-	March 2026	2.01	[ICRA]BBB- (Stable)
NA	Term loan X	January 2021	-	March 2026	11.40	[ICRA]BBB- (Stable)
NA	Term loan XI	June 2023	-	August 2028	9.24	[ICRA]BBB- (Stable)
NA	Term loan XII	April 2024	-	October 2031	145.00	[ICRA]BBB- (Stable)
NA	Term loan XIII	April 2024	-	October 2031	80.00	[ICRA]BBB- (Stable)
NA	Cash credit I	-	-	-	5.00	[ICRA]BBB- (Stable)
NA	Cash credit II	-	-	-	17.00	[ICRA]BBB- (Stable)
NA	Cash credit III	-	-	-	33.00	[ICRA]BBB- (Stable)
NA	Cash credit IV	-	-	-	5.00	[ICRA]BBB- (Stable)
NA	Unallocated	-	-	-	12.30	[ICRA]BBB- (Stable)
NA	FD programme	-	-	-	20.00	[ICRA]BBB- (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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