

March 29, 2017

Sahakar Shiromani Vasantrao Kale Sahakari Sakhar Karkhana Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Short term: fund based limits	17.00	[ICRA]A4 / assigned

**Instrument details are provided in Annexure-1*

Rating Action

ICRA has assigned the [ICRA]A4 ratings to the Rs.17.00 crore bank facilities of Sahakar Shiromani Vasantrao Kale Sahakari Sakhar Karkhana Limited.

Rationale

The assigned rating factors in the long operating history of the company in the Central Solapur region of Maharashtra. The rating also takes into account the forward integration into bagasse based power cogeneration and distillery which provides some cushion against the cyclicity in the sugar operations. ICRA also notes the improved outlook of the sugar industry on steady accretion of sugar realizations over the last fiscal on limited stocks. Further the industry also continues to enjoy government support in the form of soft loans among others.

The rating however remains constrained with the subdued operational performance of the company in the current and past fiscal on limited availability of cane, the fallout of drought over three successive years. Further, the financial profile of the company remains stretched marked by operating losses in FY'2016, adverse capital structure mainly on weak net worth and high working capital intensity thereby limiting the financial flexibility. Given the recently concluded capex involving establishment of co gen facilities and addition of crushing capacity, the company also has significant repayment obligations over the next few fiscals. Further on, the profitability of the company remains contingent to agro climatic conditions determining the cane availability, movement of sugar and by-products prices as also regulatory changes like cane pricing, stock limits among others.

Going forward, remunerative sugar realizations, healthy cane procurement amidst a highly competitive landscape, optimal capacity utilizations and timely servicing of debt obligations will remain the key monitorables for the company.

Key rating drivers

Credit Strengths

- Long operating history resulting in established relationships with cane farmers in the catchment area.
- Forward integration into co generation and distillery provides some cushion against the cyclicity in the sugar business.
- Improved outlook for sugar sector supported by healthier demand supply position and steady accretion in sugar price since last fiscal.
- Government support to the sugar industry in the form of soft loans among others.

Credit Weakness

- Weak financial profile marked by operating losses in past fiscal, adverse capital structure and thin coverage indicators.
- Profitability levels exposed to movement in sugar realizations; depressed sugar realizations in FY'2016 due to liquidity pressure resulted in company not benefiting from the up-trend in sugar cycle.
- Significant repayment obligations in next few fiscals on recently concluded capex.
- High working capital intensity marked by high inventory holdings.
- Exposed to agro climatic risks and cyclical trends in sugar business.
- Vulnerable to government /regulations policies on cane pricing, export regulations and finished products.

Description of key rating drivers highlighted above:

The company's sugar operations are fully integrated with 18 MW cogen operations and 30 KLPD distillery operations. Given the drought conditions in past three seasons, the cane availability remained limited in the Solapur district. The company in the current season however crushed 48,501 MT of sugar in 38 days with average recovery of 8.01%, the lowest in the past five seasons.

The company over the past two fiscals undertook capex involving modernization of machinery thereby increasing the crushing capacity to 4000 TCD from existing 2500 TCD and setting up of bagasse based power cogen plant. The ~ Rs.125 crore project was funded through term loans of Rs.99.23 crore, Govt. of Maharashtra equity of Rs.4.61 crore with rest coming through internal accruals. The company partially commenced the co gen plant in FY'2017 commercializing the 10 MW of the 18 MW capacities. The co gen along with the enhanced crushing capacities is likely to commence operations in October'2017 (SY'2017-18). The project enjoys a favorable moratorium period with repayment of MSCB¹ loans commencing in April'2018.

SSVK Sugar had an abridged season in SY'2017 which lasted for days 38 days. The company operating income remained stagnated in the past fiscal with the same at Rs.166.9 crore as compared to Rs.169.7 crore in FY'2015 mainly on limited sugar sales marked by depressed realizations. The operating margins which remained at 8.6% in FY'2015 dropped to - 0.8% FY'2016. Going forward, the company is expected to benefit from the currently alleviated sugar prices as compared to the depressed sugar price of Rs.23,650 per ton in the past fiscal.

The gearing remained adverse at 35.5 times in FY'2016 which is likely to continue in the near term. The coverage indicators remained stretched on weak profitability and high debt levels. The company has significant debt repayments in the coming fiscals which is expected to met from internal accruals and liquidation of the inventory wherein achieving remunerative realizations remains crucial.

Working Capital Intensity remained relatively low at 28% in FY'2016 as compared to 45% in past fiscal. The higher working capital intensity, typical of sugar industry remains high mainly due to year end stocking of sugar which roughly coincides with the end of the season.

¹ Maharashtra State Co operative Bank

Analytical approach:
Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

ICRA Rating Methodology for Sugar Industry

<http://www.icra.in/Files/Articles/cd20020831sugar.pdf>

About the Company:

Incorporated in 1999, Pandharpur, Dist. Solapur (Maharashtra) based Sahakar Shiromani Vasant Rao Kale Sahakari Sakhar Karkhana Limited is involved in manufacture of sugar. The 2500 TCD crushing facility is fully integrated with 30 KLPD distillery facility and 18 MW co gen unit. The company till date has completed 17 seasons.

Status of non-cooperation with previous CRA: CRISIL has suspended the CRISIL A4 rating assigned to the Rs.35.00 crore limits of Sahakar Shiromani Vasant Rao Kale Sahakari Sakhar Karkhana Limited on November 28'2016 on account of its inability to maintain a valid rating in the absence of adequate information.

Any other information: Not Applicable.

Rating History for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month - year & rating	Month - year & Rating in FY2016	Month - year & Rating in FY2015	Month - year & Rating in FY2014
1	Fund based	Short term		March 2017	*	*	*
			17.00	[ICRA]A4	*	*	*

* Not applicable

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based – short term	-	-	-	17.00	[ICRA]A4

Source: Sahakar Shiromani Vasantrao Kale Sahakari Sakhar Karkhana Limited

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