

November 17, 2017

The Krishna Sahakari Sakkare Karkhane Niyamit

Summary of rated instruments

Instrument	Current Amount (Rs. crore ¹)	Rating action
Long-term – Cash Credit	10.00	[ICRA]B (Stable); revised from [ICRA]B+ (Stable)
Total	10.00	

**Instrument Details are provided in Annexure-1*

Rating action

ICRA has revised the long-term rating for the Rs. 10.00-crore cash credit facilities of The Krishna Sahakari Sakkare Karkhane Niyamit (KSSK / the entity) from [ICRA]B+ (pronounced ICRA B plus) to [ICRA]B (pronounced ICRA B). The outlook on the long term rating is Stable.

Rationale

The revision in the rating takes into account the significant decline in capital structure due to the debt-funded capital expenditure for expansion of the sugar-mill and power plant capacity, coupled with the marginal decline in net worth due to prior-period expenses in FY2017. Going forward, with significant repayment obligations on the term loans, the coverage indicators are expected to remain stretched in the near term. The ratings are also constrained by the high working capital intensity of operations due to high inventory holdings and the exposure of the business to agro-climatic risks and demand-supply cyclicity associated with the sugar industry.

The rating, however, draws comfort from the favourable location of the plant in the North Karnataka region which reports high sugar recovery rates and the long standing experience of the management in the industry supporting its business operations. The rating also takes into account the forward integration of the entity into power cogeneration which provides an additional source of revenue as well as enhances profitability. Also, the improvement in the sugar realizations from August 2015 onwards improves the financial viability of its operations.

Key rating drivers

Credit strengths

- **Longstanding experience of promoters in the industry:** KSSK commenced its commercial operations in FY2003 and the promoters have more than 20 years of experience in the sugar industry. The long experience of the promoters and the management team help the entity manage its business risks effectively.
- **Favourable location of the sugar plant:** The plant is located in Athani Taluk of Belgaum district in North Karnataka. The area reports higher cane recovery rates as compared to the state average recovery, owing to favourable soil and climatic conditions, and the entity stands to benefit from this.
- **Forward integration with cogen power plant:** KSSK operates sugar mill with a capacity of 5,500 Tonnes of Cane per day (TCD), and a 27 Megawatt (MW) power plant. The production of power using the by-products from the sugar milling activity enhances the revenues and margins of the entity.
- **Improvement in the sugar prices in both domestic and international markets:** The sugar prices which hit a multi-year low in August 2015 started recovering since then and the average sugar realisations for KSSK improved from Rs. 24,400/MT in FY2016 to Rs. 34,800 /MT in FY2017, supporting its operating margins.

¹ 100 lakhs = 1 crore = 10 millions

Credit weaknesses

- **Exposure to agro-climatic risks associated with the sugar business:** The variations in monsoons can impact the availability of cane and the recovery of sugar from the cane. This in turn would affect the revenues and margins of the entity. During FY2017, the crushing season was shortened to 76 days as against 123 days in FY2016 owing to unfavourable monsoons.
- **Decline in net worth over the last two years:** While the company reported profits at net level for FY2017, it had to pay its supplier-farmers an additional Rs. 300/MT over and above the fair and remunerative price (FRP) set by the government, for the cane procured in FY2017. This prior-period item resulted in erosion of net worth in FY2017. Similar payout in FY2016 resulted in lower net worth in FY2016 as well.
- **Debt funded capital expenditure has weakened the capital structure significantly:** The company had budgeted a capital expenditure of Rs. 97.0 crore in FY2016 and FY2017 towards expansion of its milling capacity from 4,000 TCD to 5,500 TCD and its power production capacity from 12 MW to 27 MW. The actual cost however, has overshoot the budget by about Rs. 11.0 crore. The increase in debt levels from Rs. 148.2 crore as on March 31, 2015 to Rs. 276.2 crore as on March 31, 2017 has weakened the capital structure. The gearing stood at 8.1 times as on March 31, 2017 as against 4.0 times as on March 31, 2015.
- **Weak coverage indicators with significant debt repayment obligations in the near term:** The entity has a repayment obligation of Rs. 11.8 crore in FY2018 and Rs. 16.1 crore in FY2019 towards the term loans availed for its expansion projects. The ability of the company to scale up its operations and improve its profitability would be critical to generate sufficient cash flows to meet its debt repayment obligations.
- **Working capital intensive nature of operations:** KSSK operates its sugar mill during the cane harvesting season which typically runs from October/November to March/April. The entity stocks the sugar produced during this season and sells them during the subsequent months. The high inventory holdings during this season increase the working capital intensity and the NWC/OI stood at 71.5% for FY2017 as against 54.2% in FY2015.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable Criteria

[Rating Methodology for Entities in the Sugar Industry](#)

About the company

The Krishna Sahakari Sakkare Karkhane Niyamit, a cooperative society registered under the Karnataka Cooperative Societies Act, 1959, operates 5,500 TCD sugar mill integrated with a 12 MW cogen power-plant, in Athani Taluk of Belgaum District in Karnataka. Registered in March 1981, the society commenced its commercial operations during FY2003 with 2,500 TCD crushing capacity. During FY2012, the entity expanded its processing capacity to 4,000 TCD and also installed a 12MW cogen plant. The cogen capacity was increased to 27 MW in FY2017 and the sugar mill capacity was increased to 5,500 TCD in FY2018. The Government of Karnataka holds 58.5% stake in the entity as on March 31, 2017.

Key financial indicators (Audited)

	FY2016	FY2017
Operating income (Rs. crore)	179.7	243.6
PAT (Rs. crore)	1.2	19.3
OPBDITA/ OI (%)	12.5%	21.1%
RoCE (%)	8.6%	14.3%
Total Debt/ TNW (times)	218.7	276.2
Total Debt/ OPBDITA (times)	9.7	5.4
Interest coverage (times)	1.3	2.4
NWC/ OI (%)	68.2%	71.5%

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; OI: Operating Income; RoCE: Return on Capital Employed; TNW: Tangible Net-worth; NWC: Net Working Capital; Source: Financial statements of KSSK and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating in FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				November 2017			
1	Cash Credit	Long Term	10.00	[ICRA]B (Stable)	[ICRA]B+ (Stable)	-	-

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
Instrument details

Name of the instrument	Date of issuance/sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit	-	-	-	10.00	[ICRA]B (Stable)



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