

## Vijayanagar Sugar Private Limited

June 08, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Term Loan	271.87	316.11	[ICRA]D; Reaffirmed
Fund-based - Cash Credit	58.33	58.33	[ICRA]D; Reaffirmed
Non-fund Based – Letter of Credit/Bank Guarantee	42.86	42.86	[ICRA]D; Reaffirmed
Unallocated Limits	176.94	132.70	[ICRA]D; Reaffirmed
<b>Total</b>	<b>550.00</b>	<b>550.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]D (pronounced ICRA D) for the Rs. 316.11-crore<sup>1</sup> (enhanced from Rs. 271.87-crore) term loans, the Rs. 58.33-crore cash credit facilities and the Rs. 132.70-crore (declined from Rs. 176.94-crore) unallocated limits of Vijayanagar Sugar Private Limited (VSPL or the company)<sup>2</sup>. ICRA has also reaffirmed the short-term rating of [ICRA]D to the Rs. 42.86-crore non-fund based facilities of VSPL.

### Rationale

The rating reaffirmation reflects the continuing delays in the company's debt servicing because of inadequate cash accruals. The low cane crushing volume (4.8 lakh MT) in FY2018, despite a 23% YoY increase, has adversely impacted the profitability and debt coverage metrics. Further, the sugar prices have been under pressure since Q4 FY2018 because of its oversupply in the domestic market. The ratings continue to remain constrained by the weak financial profile, the vulnerability of sugar operations to agro-climatic risks and regulatory risks inherent in the sector with respect to government policies on cane pricing, sugar exports etc.

ICRA, however, takes note of the fully integrated sugar plant (with both cogeneration and distillery units) which cushions the margins during downturn.

### Key rating drivers

### Credit strengths

**Forward integrated nature of operations** – The crushing capacity of VSPL is 5,000 tonnes crushed per day (TCD). This unit is forward integrated with power business (35.5 mega watt) and extra neutral alcohol (ENA) / ethanol business (130 kilo litre per day distillery capacity). This provides alternate revenues and cushions profitability against cyclicity in sugar business.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Credit challenges

**Delays in debt servicing** – The company is continuing to delay in servicing its debt obligations because of inadequate cash accruals. This is due to sub-optimal cane crushing volume (4.8 lakh MT) in FY2018, despite a 23% YoY increase, along with subdued sugar prices in Q4 FY2018. These factors have adversely impacted the profitability, cash accruals and debt coverage metrics. Despite healthy sugar prices in 9M FY2018, VSPL could not reap the benefits because of low sugar stocks as on March 31, 2017, on account of low cane crushing volume (3.9 lakh MT) in FY2017.

**Weak financial profile** – VSPL's financial profile is weak as characterised by losses at net level, high gearing and weak debt coverage metrics in 9M FY2018. This is majorly due to low cane crushing volumes.

**Vulnerability of profitability to agro-climatic and regulatory risks** – Profitability of sugar mills are exposed to the cyclicity of the sugar industry, agro-climatic risks associated with cane production and government policies related to cane pricing and sugar trade.

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

**Links to applicable criteria:**

[Corporate Credit Rating Methodology](#)

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

## About the company:

Vijayanagar Sugar Private Limited (VSPL) was incorporated in 2007 by Mr. S Anand Reddy & Associates to set up an integrated sugar plant in the Gadag District of Karnataka. VSPL took over the unfinished sugar factory from Mrudagiri Sahakari Sakkare Karkhane Niyamit (a co-operative sugar mill), on a lease for 30 years on build, own, operate & transfer (BOOT) basis in 2007 and set up an integrated sugar plant comprising of a 5000-TCD sugar plant, a 35.5-MW co-generation power plant and a 130-KLPD distillery. The project cost was around Rs. 487.67 crore. The co-gen unit became operational in April 2010, followed by sugar unit in September 2010 and distillery unit in August 2011.

In 9M FY2018, on a provisional basis, the company reported a net loss of Rs.21.9 crore on an operating income of Rs. 217.5 crore, as compared to a net profit of Rs. 22.5 crore on an operating income of Rs. 444.5 crore in the previous year.

## Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	461.1	444.5
PAT (Rs. crore)	3.2	22.5
OPBDIT/OI (%)	17.9%	17.1%
RoCE (%)	10.8%	13.4%
Total Debt/TNW (times)	53.8	12.2
Total Debt/OPBDIT (times)	6.2	5.2
Interest coverage (times)	1.5	1.7

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for last three years:**

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 April 2016	Date & Rating in FY2016 April 2015
1 Term Loan	Long Term	316.11	316.11	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
2 Cash Credit	Long Term	58.33	-	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
3 Non-fund Based Facilities	Short Term	42.86	-	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D
4 Unallocated Limits	Long Term	132.70	-	[ICRA]D	[ICRA]D	[ICRA]D	[ICRA]D

**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](http://www.icra.in)

## Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	Dec-2014	15.25%	Jan-2022	92.23	[ICRA]D
NA	Working Capital Term Loans	Dec-2014	15.25%	Jan-2022	40.27	[ICRA]D
NA	Foreign Currency Loan	Dec-2014	8.00%	Jan-2022	90.30	[ICRA]D
NA	SEFASU Loan	Sep-2014	-	Sep-2019	6.89	[ICRA]D
NA	Soft Loan	Sep-2015	12.00%	Jul-2020	11.42	[ICRA]D
NA	Harvesting & Transportation Loans	Dec-2016	10.00%	NA	75.00	[ICRA]D
NA	Cash Credit	NA	NA	NA	58.33	[ICRA]D
NA	Letter of Credit/ Bank Guarantee	NA	NA	-	42.86	[ICRA]D
NA	Unallocated Limits	NA	NA	-	132.70	[ICRA]D

Source: Vijayanagar Sugar Private Limited

## ANALYST CONTACTS

**Sabyasachi Majumdar**  
+91 124 4545 304  
[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Anupama Reddy**  
+91 40 40676516  
[anupama.reddy@icraindia.com](mailto:anupama.reddy@icraindia.com)

## RELATIONSHIP CONTACT

**Jayanta Chatterjee**  
+91 80 4332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited

### 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](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

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