

The Mahatma Gandhi Sahakara Sakkare Karkhane

December 04, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	15.0	15.0	[ICRA]C+; reaffirmed
Long Term - Unallocated	20.0	20.0	[ICRA]C+; reaffirmed
Total	35.0	35.0	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation is constrained by The Mahatma Gandhi Sahakara Sakkare Karkhane's (MGSSK) weak financial profile characterised by net losses and negative cash accruals and its negative net worth owing to accumulation of losses over the years. The coverage indicators have remained inadequate and the cash losses and debt servicing obligations have been mainly funded through additional borrowings. The rating also considers the de-growth in MGSSK's revenues in FY2018 due to lower sales volume, notwithstanding the improvement in its operating profits due to lower cane procurement costs in FY2018. The rating is also constrained by its high working capital intensity of operations due to high inventory holdings and the exposure of the business to agro-climatic risks on sugarcane availability and recovery and the high regulatory intensity in terms of sugarcane pricing. Further, the margins are likely to be under pressure in the near term, given the decrease in the sugar realisations in the ongoing sugar season.

The rating, however, draws comfort from the extensive experience of the management in the sugar industry, along with forward integration of the plant into co-generation, which results in partial de-risking from the volatilities of sugar industry.

Key rating drivers

Credit strengths

Extensive experience of management in the industry - MGSSK was promoted by Dr. Bheemanna Khandre, who has over 35 years of experience in the sugar industry. Before MGSSK, he had co-founded the Bidar Sahakare Sakkare Karkhane Ltd and served as its Chairman for more than fourteen years.

Partial forward integration with co-generation power plant - MGSSK is partially forward integrated with an eight-MW co-generation power plant, which protects its profitability to an extent in case of downturn in the sugar industry. In addition to the sale of power, it derives revenues from the sale of bagasse and molasses. This lends support to its revenues and margins to some extent.

Credit challenges

Net losses and negative cash accruals - MGSSK's profitability has remained weak with the entity continuing to report net losses in FY2018 due to high interest costs resulting from high debt levels. The revenues also de-grew in FY2018 due to lower sales volume. The operating profits, however, improved due to lower cane procurement costs in FY2018.

Adverse capital structure with negative net worth and inadequate coverage indicators - MGSSK's net worth remains negative owing to the losses accumulated over the years. The losses are primarily funded through additional debt borrowings and this has resulted in an adverse capital structure. The weak operating margins and high interest costs have resulted in inadequate coverage indicators.

Exposure of the business to agro-climatic risks and regulatory risks - The availability of sugarcane and the sugar recovery from the cane is susceptible to changes in the weather conditions. This leads to high volatility in the prices of sugar over the years. Moreover, the sugar industry is highly regulated, and the Government sets the floor price for the procurement of sugarcane. This would impact the profitability of sugar industry when the sugar realisations are low.

Working capital intensive nature of operations - MGSSK operates its sugar mill during the cane harvesting season, which typically runs from October/November to March/April. It stocks the sugar produced during this season and sells them during the subsequent months. The high inventory holdings during this season lead to high working capital intensity of operations. With further increase, especially in year-end inventory, the NWC/OI stood high at 119.0% in FY2018 when compared to 66.3% in FY2017.

Liquidity position

MGSSK's cash flows from operations remained weak owing to an increase in its working capital requirements in FY2018. With weak realisations and low profitability in the current fiscal, the liquidity position remains tight. It has limited cushion available in the form of its undrawn working capital borrowings. The planned capital expenditure of ~Rs. 6.5 crore and repayment obligation of ~Rs. 4.4 crore in FY2019 is likely to further impact the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Entities in the Sugar Industry
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the company

MGSSK, a co-operative society registered under the Karnataka Co-operative Societies Act, 1959, operates a sugar mill with a capacity of 3,500 tonne of cane per day (TCD), integrated with an 8-megawatt (MW) co-generation power plant, in Balki Taluk of Bidar district in Karnataka. Registered in March 1981, the entity commenced its commercial operations in FY2003 with 2,500-TCD crushing capacity. Registered in April 1991, the society commenced its operations in November 2003 with 2500 TCD. In FY2012 and FY2013, the entity expanded its processing capacity to 3500 TCD and installed the co-generation plant.

In FY2018, MGSSK reported a net loss of Rs. 19.8 crore on an operating income (OI) of Rs. 92.0 crore compared to a net loss of Rs. 20.1 crore on an OI of Rs. 115.6 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	115.6	92.0
PAT (Rs. crore)	-20.1	-19.8
OPBDIT/ OI (%)	3.1%	6.9%
RoCE (%)	-0.1%	2.4%
Total Debt/ TNW (times)	-2.1	-2.2
Total Debt/ OPBDIT (times)	60.9	42.7
Interest Coverage (times)	0.2	0.3
NWC/ OI (%)	66.3%	119.0%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument Current Rating (FY2019)				Chronology of Rating History for the past 3 years				
Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2019	Date & Rating in FY2018			Date & Rating in FY2017	
				Dec 2018	Jan 2018	Nov 2017	May 2016	May 2016
1 Fund Based/ CC Term	Long	15.0	[ICRA]C+	[ICRA]C+	[ICRA]C+	ISSUER NOT COOPERATING*;	[ICRA]C+	[ICRA]C+
2 Unallocated Long Term	Long	20.0	[ICRA]C+	[ICRA]C+	-	-	-	-

*Issuer did not cooperate; based on best available information

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based/ CC	-	-	-	15.0	[ICRA]C+
NA	Unallocated	-	-	-	20.0	[ICRA]C+

Source: The Mahatma Gandhi Sahakara Sakkare Karkhane

ANALYST CONTACTS

K Ravichandran

+91-44-4596 4301
ravichandran@icraindia.com

R Srinivasan

+91-44-4596 4315
r.srinivasan@icraindia.com

Nikhil Mathew

+91-80-4922 5569
nikhil.mathew@icraindia.com

Ankita Deambi

+91-80-4922 5504
ankita.deambi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

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

info@icraindia.com

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For more information, visit www.icra.in

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

Website: 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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