

## Sitaram Maharaj Sakhar Karkhana (Khardi) Ltd

March 14, 2019

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loan	50.00	[ICRA]C; Assigned
Fund-based – Working Capital Facilities	100.00	[ICRA]C; assigned
<b>Total</b>	<b>150.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating takes into account the weak financial profile of Sitaram Maharaj Sakhar Karkhana (Khardi) Ltd. (Sitaram Sugar or the company) marked by significant losses in the past, resulting in erosion of net worth and stressed liquidity position, and the subsequent corporate debt restructuring in October 2018. The assigned rating remains constrained by the high working capital intensity of operations owing to significant inventory build-up and the vulnerability of the company's profitability to high volatility in sugar prices. ICRA also notes the inherent cyclical nature in the sugar industry and the company's exposure to agro-climatic risks related to cane production.

The rating, however, factors in the extensive experience of the promoters in the sugar industry and its forward integration in the power cogeneration segment. The rating also factors in the Government support to the sugar industry in the form of soft loans and subsidies, among others.

### Outlook: Not Applicable

### Key rating drivers

#### Credit strengths

**Extensive experience of the promoters in the sugar industry** – Sitaram Sugar is a closely held entity promoted by the Solapur-based Kale family. The key promoter, Mr. Kalyanrao V. Kale, has an industry experience of close to 20 years and has also promoted the Sahakar Shiromani Vasantrao Kale Sahakari Sakhar Karkhana Limited located in the vicinity of the factory.

**Government support to the sugar industry; forward integration into co-generation of energy provides some cushion against the cyclical nature in the sugar business** – The company benefits from the Government support to the sugar industry in the form of low cost soft loans and interest subvention schemes, among others, which have material impact on the profitability of the domestic sugar industry. The company's sugar operations are fully integrated with a 10.00-Mega Watt (MW) power co-generation unit, which provides some comfort vis-à-vis cyclical sugar operations. In FY2018, the company derived Rs. 14.08 crore (80%) in revenues from its sugar operations, while Rs. 3.02 crore (17%) was generated by the sale of energy. The company has a long-term Power Purchase Agreement (PPA) with the Maharashtra State Electricity Distribution Company Limited (MSEDCL) for sale of power at a tariff of Rs. 6.43 / unit, valid till 2020.

## Credit challenges

**Weak financial profile due to losses in the past, leading to debt restructuring in October 2018** - The company reported heavy operating losses in FY2017 and FY2018 due to sharp decline in revenues, high operating costs and sizeable interest burden, resulting in erosion of net worth. The company's liquidity position remained stretched, given the heavy losses, which impacted its debt servicing ability, ultimately resulting in corporate debt restructuring in October 2018.

**Modest scale of operations** - The company's operational history spans close to nine years, excluding SY (Sugar Year) 2017, when operations were stalled because of cane paucity in the command area. In SY2019, the company operated for close to 90 days crushing 174,333 MT of cane, recording a recovery of 9.77% over the operational period of 93 days in SY2018, when the company crushed 90,714 MT of cane, recording a recovery of 10.60%. The operating income declined by 26% in FY2018 to Rs. 19.33 crore from Rs. 26.04 crore in FY2017 due to low sugar volumes sold on softening realisations, especially since December 2017. In the current fiscal period from April 2018 to February 2019, the company has booked revenues of Rs. 27.60 crore.

**High working capital intensity of operations** - The working capital intensity of the company increased in FY2018 on account of high sugar inventory levels during the year-end, standing at 52% in FY2018 (44% in FY2017). As on March 31, 2018, the company's inventory stood at 438 days, up from 86 days as on March 31, 2017.

**Exposure to agro-climatic risks and cyclical trends in the sugar industry** - Cane production remains a function of agro-climatic conditions, which ultimately impacts the volumes and realisations of sugar and its by-products. Lower than expected rainfall in the cooperative's catchment area can result in restricted cane availability, thus impacting the crushing volumes for the season. Further, the sugar business also remains vulnerable to any unfavourable changes in Government policies related to sugar trade.

**Vulnerability of profitability to volatility in sugar realisations and cane procurement costs** - Typically, the profitability of sugar entities remains driven by their sugar realisations and cane procurement costs. While sugar realisations remain market driven, state governments usually fix the minimum support price for sugarcane. Any adverse movements in the same impacts the contribution margins and, hence, the profitability of sugar mills.

## Liquidity position

The liquidity profile has remained constrained, especially in the past two fiscals, given the heavy losses, ultimately leading to debt restructuring. Post debt restructuring, the company has obtained a moratorium of 12 months for its long-term debt obligations, and its repayments will commence from September 2019. Nevertheless, the repayment obligations remain high at Rs. 8.21 crore each for FY2020, FY2021 and FY2022. The ability of the company to ensure healthy scale up of its operations with notable improvement in profitability will be crucial for timely debt servicing. The average utilisation of the sanctioned working capital limits for the 12-month period ending December 2018 stood at around 83%, while the peak utilisation stood at 108%.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Sugar Entities</a>
Group Support	NA
Consolidation / Standalone	Standalone

## About the company

Incorporated in 2010, the Pandharpur-based (Maharashtra) Sitaram Maharaj Sakhar Karkhana (Khardi) Ltd. has an installed crushing capacity of 2,500 tonne crushed per day (TCD). Its daily crushing capacity is integrated with a 10-MW power cogeneration unit. The catchment area of the company extends to villages of the Pandharpur Taluka in Solapur District.

In FY2018, Sitaram Sugar reported a net loss of Rs. 11.17 crore on an operating income of Rs. 19.33 crore, as compared to a net loss of Rs. 13.91 crore on an operating income of Rs. 26.04 crore in the previous year.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	26.04	19.33
PAT (Rs. crore)	-13.91	-11.17
OPBDIT/OI (%)	-11.32%	-3.73%
RoCE (%)	-5.38%	-3.84%
Total Debt/TNW (times)	28.22	-21.22
Total Debt/OPBDIT (times)	-44.50	-191.85
Interest coverage (times)	-0.21	-0.08

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

## Any other information: None

## Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating March 2019	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
1	Term Loan	Long Term	50.00	43.85*	[ICRA]C	-	-	-
2	Working Capital	Long Term	100.00	-	[ICRA]C	-	-	-

\* as on February 28, 2019

## 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 Loan	October 2018	NA	October 2025	50.00	[ICRA]C
NA	Working Capital	NA	NA	NA	100.00	[ICRA]C

Source: Sitaram Maharaj Sakhar Karkhana (Khadi) Ltd

### Annexure-2: List of entities considered for consolidated analysis: NA

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