March 23, 2020

Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund based-Term Loan	50.00	50.00	[ICRA]BBB-(negative) reaffirmed
Fund based- Working Capital Facilities	50.00	50.00	[ICRA]BBB-(negative) reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation with negative outlook reflects the continued pressure on the cash flow of Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited (Shahu Sugar or the company) arising from the significant impending debt repayments in the near term from its sizable term borrowings. Further, high dependence on external debt has resulted in leveraged capital structure and weak coverage indicators. The rating also remains constrained by the high working capital intensity of operations owing to significant year-end inventory levels; vulnerability of the company's profitability to high volatility in sugar prices; the inherent cyclicality in the sugar industry; exposure to agro-climactic risks related to cane production; and Government policies on cane pricing and sugar trade.

The rating, however, continues to draw comfort from the company's long operational history; its presence in the high cane yield, high sugar recovery Kolhapur region of Maharashtra; and forward integration into power cogeneration and distillery business, which provides an alternative revenue stream and moderates the impact of the cyclicality of the sugar business to an extent. The rating also positively factors in the favourable Government policies towards the sugar industry in the form of soft loans and interest subvention schemes, among others, which support the profitability metrics of the sugar mills.

Key rating drivers and their description

Credit strengths

Long operating history spanning five decades - Incorporated in 1977, Shahu Sugar has a long operational history spanning five decades. Its cooperative set up has close to 15,000 cane producing members and more than 20,000 cane suppliers which ensures stable cane supply year on year. The cooperative's command area is spread over 100 villages of Maharashtra and Karnataka.

Presence in high cane yield, high recovery Kolhapur region imparts location advantage - Shahu Sugar catchment area encompasses Kagal and Karvir talukas of Kolhapur district of Maharashtra. The region lies at the foothills of Sahyadris imparting topographical advantages like perennial water supply and black hygroscopic alluvial soil. Given the favourable soil and climatic conditions, the Kolhapur zone has emerged as one of the highest sugar recovery zones in India with sugar recovery rates above 12%, higher than the Maharashtra state average sugar recovery rate of ~11%. Shahu Sugar's average recovery rate for the cane crushed in the Sugar Year 2018-19 remained at 12.63% as compared to 12.39% in SY2017-18.

Forward integration into cogeneration and distillery provides some cushion against the cyclicality of the sugar sector - The company's sugar operations are fully integrated with 21.50 Mega Watt (MW) power cogeneration operations and 45 Kilo Liters Per Day (KLPD) distillery operations, which provide some comfort vis-à-vis cyclical sugar operations. In FY2019, the company derived Rs. 263.84 crore (79%) revenues from its sugar operations, while Rs. 24.84 crore (6%) came from the sale of power and Rs. 68.79 crore (14%) from distillery operations. Shahu Sugar enjoys a long-term Power Purchase Agreement (PPA) with the Maharashtra State Electricity Distribution Company Limited (MSEDCL) for the sale of power at a tariff of Rs. 6.43 / unit, valid till 2020.

Increase in sugar realisations in the recent fiscal, likely to continue in near term on expected lower production in the current crushing season - The average sugar realisations have remained at Rs. 27,741/MT in FY2019 as compared to Rs. 34,518/MT in FY2018. The sugar realisations have recovered to Rs. 30,119/MT in the April–December 2019 period mainly on the basket of measures implemented by the Government of India (GoI). The realisations are expected to still increase in the near term, given the anticipated decline in sugar production in the current crushing season.

Government support to the sugar industry – The company benefits from the Government support to the sugar industry in the form of low cost soft loans, interest subvention schemes and benchmarking cane procurement cost and sugar realisations, among others, which have material impact on the profitability of the domestic sugar industry. Under the Minimum Indicative Export Quota (MIEQ), the Government of India has approved a 6 million-MT sugar for SY2020, which remains backed by a subsidy of ~Rs. 8,000/MT. The export subsidy benefits availed in FY2019 partially supported the improvement in operating margins to 11.50% in FY2019 from 7.45% in FY2018.

Credit challenges

Fluctuating revenues in the past - Sugar revenues have dominated the revenue profile of the company (~80% of the total revenues) followed by distillery revenues. Sugar revenues have demonstrated a fluctuating trend in past fiscals, registering a degrowth in FY2017 and FY2018, given the decline in realisations and monthly stock limits imposed by the Central Government that impacted sugar volume sales. Sugar sales improved in FY2019 over FY2018 mainly on increase in volume sold.

High repayment obligations in the near to medium term – In the coming fiscals, the company faces significant debt obligations, given the sizable term borrowings in the past. The repayments remain at Rs. 35.91 crore in FY2021, while the same is expected to remain at Rs. 25.67 crore in FY2022. Amidst modest accruals, typical of a sugar cooperative mill, servicing the repayments will be a key sensitivity, going forward.

Leveraged capital structure and weak coverage indicators, and high working capital intensity of operations - The capital structure of the company has historically remained leveraged on the back of high debt levels. The total debt of the company increased to Rs. 315.91 crore as on March 31, 2019 from Rs. 284.79 crore as on March 31, 2018 owing to increase in the working capital borrowings as on end of the fiscal. Given the escalation in the debt levels in FY2019, the gearing increased to 3.34 times as on March 31, 2019 from 2.98 times as on March 31, 2018. In the current fiscal, the company has availed a soft loan (low interest bearing term loan) of Rs. 31.93 crore, which is likely to maintain the pressure on the capital structure in the near term. The debt coverage indicators have also remained weak as reflected by interest coverage of 2.17 times, NCA/Total debt of 8%, Total Debt/ OPBDITA of 7.13 times as on March 31, 2019. The interest coverage remained at 2.52 times, NCA/Total debt at 6%, Total Debt/ OPBDITA at 12.63 times as on March 31, 2018.

The working capital intensity of the company continued to remain high in FY2019 on account of high sugar inventory levels as on the year-end and stood at 61% in FY2019 (64% in FY2018). As on March 31, 2019, the company's inventory stood at 323 days, as compared to 344 days as on March 31, 2018.

Exposure to agro-climatic risks and cyclical trends in sugar business - Cane production remains a function of the 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 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 remain driven by sugar realisations and cane procurement costs. Whereas sugar realisations remain market driven, the state governments fix the minimum support price for cane. Any adverse movements in the same impact the contribution margins and, hence, profitability of the sugar mills.

Liquidity position: Stretched

Shahu Sugar's liquidity remains stretched as evidenced by negative free cash flows in FY2019. As any other typical sugar mill, the company holds substantial year-end sugar inventory, and its liquidation at remunerative pricing remains vital as far as the liquidity is concerned. The factory has sizeable term loan repayments in the next few fiscals, which are expected to be supported by working capital bank lines in view of modest accruals typical of a sugar cooperative. The average utilisation of the bank limits for the 21 months ended December 2019 stood at around 53% reflecting some liquidity buffer available with the company. As on December 31, 2019, it had undrawn working capital bank lines of Rs. 127.20 crore against sanctioned cash credit limits of Rs. 240.00 crore.

Rating sensitivities

Positive Triggers – ICRA could change the outlook to stable if the company demonstrates a healthy and sustained growth in its overall profitability and improvement in its liquidity position.

Negative Triggers - Negative pressure on Shahu Sugar's rating could arise on weakening of profits further stretching its liquidity position and triggering a downward rating revision.

Analytical approach

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

About the company

Incorporated in 1977, Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited is based at Kagal, in Kolhapur district of Maharashtra. Shahu Sugar enjoys an installed crushing capacity of 7,000 TCD, which is integrated with a cogeneration unit of 21.50 MW and a distillery of 45 KLPD. The catchment area of the company extends to 104 villages across Maharashtra and Karnataka.

In FY2019, it reported a net profit of Rs. 0.38 crore on an OI of Rs. 385.51 crore compared to a net profit of Rs. 1.00 crore on an OI of Rs. 302.78 crore in the previous year.

Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	302.78	385.51
PAT (Rs. crore)	1.00	0.38
OPBDIT/OI (%)	7.45%	11.50%
RoCE (%)	3.84%	6.04%
Total Outside Liabilities/Tangible Net Worth (times)	4.11	4.50
Total Debt/OPBDIT (times)	12.63	7.13
Interest Coverage (times)	2.52	2.17
DSCR	0.89	2.17

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating 23-Mar-2020	FY2019 14-Jan 2019	FY2018 17-Nov-2017	FY2017 7-Oct-2016
1	Term Loans	Long Term	50.00	15.02#	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	Cash Credit	Long Term	50.00	0.00	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
	Total		**100.00**					

Amount in Rs. crore; Note#: as on March 31, 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

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	November 2013	NA	November 2020	50.00	[ICRA]BBB- (Negative)
NA	Cash Credit	NA	NA	NA	50.00	[ICRA]BBB- (Negative)

Source: Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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