July 24, 2020

Padmashri Dr. Vitthalrao Vikhe Patil Sahakari Sakhar Karkhana Limited: Long-term rating revised; removed from Issuer-Not-Cooperating category

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based - Term Loan	135.0	135.0	[ICRA]BB (Stable); revised from [ICRA]BB+(Stable) and removed from Issuer Not Cooperating category
Long-term fund-based - Cash Credit	300.0	413.0	[ICRA]BB (Stable); revised from [ICRA]BB+(Stable) and removed from Issuer Not Cooperating category
Total	**435.0**	**548.0**	

Instrument details are provided in Annexure-1

Rationale

The rating revision reflects weaker-than-expected performance of Padmashri Dr. Vitthalrao Vikhe Patil Sahakari Sakhar Karkhana Limited (PSSK) during FY2019 and FY2020. Drought in Marathwada region impacted cane availability as well as quality of cane, which has impacted the financial performance of the firm in FY2020. The ratings are also constrained by PSSK's highly leveraged capital structure owing to its eroded net worth position; stretched liquidity situation and weak coverage indicators. The rating also factors in the high working capital intensive nature of business, impacted by inventory stocking policy and repayment of cane arrears. The inherent cyclicality associated with the sugar business, the agro-climatic risks related to cane production and the Government policies on cane pricing, sugar trade and import duties also constrain the rating.

However, the rating continues to derive comfort from the company's extensive track record of operations, wherein the manufacturing unit has completed over six decades of sugar crushing cycles. The ratings also derive comfort from above-average sugar recovery rate trend in the past which is also coupled with moderate operating efficiencies. Also, forward integration of its sugar operations into distillery provides relatively better competitive position and cushion against cyclicality in the sugar business.

Going forward, the operational performance is expected to improve significantly in Sugar Season 2021, supported by healthy cane availability and resultant appropriate duration of the crushing season. Subsequently, ICRA expects the company to register a healthy revenue growth and adequate accruals in FY2021, due to inventory liquidation at relatively better realisations. However, judicious management of the working capital cycle, along with timely liquidation of the inventory going forward will be the key rating sensitivity.

Credit strengths

Long operating history of the company in the sugar business – PSSK has a track record of over six decades of operations and has witnessed 68 sugar crushing seasons till FY2019. The promoters have a longstanding experience in the sugar industry and wide acceptance among the local farmers, which facilitates adequate and timely cane procurement, ensuring an adequate crushing period. Established relationships with farmers in its command area, along with various support initiatives and timely payments, ensure good quality supply.

Moderate operational efficiencies – The command area of the company (Ahmednagar, Maharashtra) has been reporting healthy recovery rates over the years. Favourable climatic conditions, fertile soil, cane development activities and adequate irrigation facilities led to high quality of sugarcane produced in the command area. Good quality of cane available to the company due to favourable soil and climatic conditions results in relatively healthy sugar recovery of around 10.7-11.80% in the past, which improves viability of cane crushing.

Forward integration of sugar operations into distillery – Forward integrated operations, with distillery unit, provide additional source of revenue to the company and partially protects the cyclicality inherent in the sugar industry though the contribution of the distillery remains limited as compared to sugar revenue. The company set up its first distillery of 15 KLPD in 1970 and the capacity has increased gradually.. Currently PSSK has a distillery unit of 120KLPD capacity which is utilised for the production of alcohol, country liquor and ethanol and the unit provides an additional source of revenue for the company. The distillery is molasses-based and the company primarily uses molasses produced during sugar production. Lack of co-generation operations, however, restrict the level of forward integration to an extent.

Government support measures in terms of Sugar MSP, bailout package, cane subsidy and interest subvention likely to provide liquidity support to the sugar mills in the near term - Various Government-support measures in terms of the exports subsidy of Rs. 10.44/kg, bailout package, cane subsidy and interest subvention are likely to provide liquidity support to sugar mills like that of PSSK in the near term. However, the working capital intensity will also remain contingent upon the regulatory intervention in terms of minimum stocking as well as prevailing sugar prices as it may impact the inventory position of the sugar manufacturers by the year-end.

Credit challenges

Working capital intensive nature of business impacted by inventory stocking and repayment of cane arrears – The company has high working capital intensity resulting from the high inventory levels prevalent in the sugar business. However, expected liquidation in inventory in the near term is likely to reduce net working capital intensity of the firm.

Leveraged capital structure due to eroded net-worth position and weak coverage indicators – The company witnessed significant loss of Rs. 61.5 crore in FY2017, which eroded its net worth position, leading to a weak capital structure since the last three fiscals. The coverage indicators also remained stretched, primarily impacted by minimal accruals as well as high working capital borrowings, which are contingent upon the inventory levels at the year-end and the cane arrears to be paid to farmers. The company relies on a combination of long-term loans as well as short-term pledge loans to pay the cane prices and the H&T expenses, resulting in high debt levels during the year. Expected improvement in production along with a likely increase in sugar MSP should aid substantial improvement in financial performance during FY2021.

Vulnerability of profitability to agro-climatic risk, cyclical trends in sugar business and state government's policy on cane prices – PSSK's cost structure and capacity utilisation is dependent upon various agro-climatic conditions, including the monsoons and the cyclicality in the sugar business. Cane production remains a function of the agro-climatic conditions, which impacts the volume and realisation of sugar and its by-products. Also, PSSK's operations remain exposed to various Government regulations prevalent in the sugar industry such as cane pricing and export/import norms. Profitability of the sugar entities is mainly driven by the sugar realisations and cane procurement costs. On the one hand, sugar realisations are primarily market driven (though some policy changes impact the sugar prices), while on the other, the state government fixes the cane costs, de-linking it to an extent from sugar realisations. Hence, sugar prices are highly susceptible to volatility and remain a function of domestic sugar balance, international crude oil prices (which determines the raw sugar-to-ethanol mix in Brazil, the world's largest producer and exporter) and the Government of India's import duties and export policies. Owing to the absence of any rationale linkage between cane price and sugar realisations, the profitability of sugar mill operations remains exposed to external demand–supply fluctuations.

Hence, the sugar business also remains vulnerable to any unfavourable changes in Government policies related to the sugar trade. Any adverse movements in any of these impacts the contribution margins and, hence, profitability of the firm.

Liquidity position: Stretched

Company's liquidity profile is stretched with it almost fully utilising its working capital lines. The company's ability to timely liquidate sugar inventory remain crucial to allay liquidity concerns in the near term.

Rating sensitivities

Positive triggers – Positive rating action could be due to improvement in leverage and coverage indicators, with interest cover above 2.0 times on a sustained basis.

Negative triggers – Negative pressure on PSSK's rating could arise in case of any adverse movement in cane prices, agro-climatic conditions or any adverse regulatory measures impacting the company's financial performance which in turn impacts its credit profile and liquidity position shall have a bearing on the rating of the firm. Also, delay in liquidation of inventory and accrual of benefits from specified Government schemes shall result in rating pressure.

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	The rating is based on the standalone financial statements of the issuer.

About the company

Padmashri Dr. Vitthalrao Vikhe Patil Sahakari Sakhar Karkhana Limited was set up in 1950 under the Maharashtra Co-operative Societies Act, 1960, as a role model for the development of a newly independent India through the cooperative movement. PSSK, the first sugar factory set up in the cooperative sector in Asia, is located in the Pravaranagar village in Ahmednagar (Maharashtra). The company has over 12,500 cane grower members and over 18,000 non-producer members. It undertook its first SS in 1950-1951 with a crushing capacity of 500 tonnes crushed per day (TCD). The crushing capacity was subsequently enhanced in stages, with the present installed capacity as on March 31, 2018 of 5,000 TCD. The company also has a multi-pressure distillery unit with a capacity of 120 KLPD.

In FY2015, the company took over a sugar mill (with 1,750 TCD capacity) located in Ganeshnagar, Ahmednagar from the Government of Maharashtra to operate for eight years. Thus, PSSK's combined capacity from both the units stands at 6,750 TCD as on date.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	344.3	431.8
PAT (Rs. crore)	1.8	0.6
OPBDIT/ OI (%)	11.7%	9.7%
RoCE (%)	14.3%	12.3%
Total Debt/ TNW (times)	-7.2	-9.6
Total Debt/ OPBDIT (times)	8.3	10.6
Interest Coverage (times)	1.0	1.0

Status of non-cooperation with previous CRA:

Rating Agency	Date of Press Release	Rating
CRISIL	August 22, 2019	CRISIL BB/Stable Issuer Not Cooperating

Any other information: None

Rating history for last three years

		Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	24-July 2020	18-May 2020	27-February 2019	09-November 2017	22-November 2016
1	Term Loan	Long Term	135.00	118.13	[ICRA]BB (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB (Stable) ISSUER NOT COOPERATING	[ICRA]BB (Stable)
2	Cash Credit	Long Term	413.00	160.00	[ICRA]BB (Stable)	[ICRA]BB+ (Stable) ISSUER NOT COOPERATING	[ICRA]BB+ (Stable)	[ICRA]BB (Stable) ISSUER NOT COOPERATING	[ICRA]BB (Stable)

Source: Company data as on July 17, 2020

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	Term Loan - I	Sept-2010	12.85%	MSep-2026	84.35	[ICRA]BB(Stable)
NA	Term Loan - II	Sep-2015	15.30%	Mar-2022	8.28	
NA	Term Loan - III	June- 2019	16.75%	May-2024	25.5	
NA	Proposed Term Loan - VI	-	-	-	16.87	
NA	Cash Credit - I	-	-	-	150.00	[ICRA]BB(Stable)
NA	Cash Credit - II	-	-	-	139.00	
NA	Cash Credit - III	-	-	-	60.00	
NA	Proposed Cash Credit- IV	-	-	-	73.00	

Source: Company data

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

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About ICRA Limited:

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