

January 28, 2022

Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited: Rating downgraded; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	50.00	50.00	[ICRA]BB+, downgraded from[ICRA]BBB-; outlook revised to Stable from Negative
Cash Credit	50.00	50.00	[ICRA]BB+, downgraded from[ICRA]BBB-; outlook revised to Stable from Negative
Total	100.00	100.00	

*Instrument details are provided in Annexure-1

Rationale

The rating revision factors in the expected pressure on Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited's (Shahu Sugar) cash flows because of the sizeable debt repayments in the near term, its stretched liquidity position, weak capitalisation and debt coverage indicators. The rating continues to be constrained by the company's high working capital intensity, mainly because of the year-end sugar inventory build-up and the vulnerability of its profitability to volatility in sugar prices. The rating also considers the company's exposure to the inherent cyclicity in the sugar industry; the agro-climactic risks related to cane production and the Central Government's policies on sugar trade, and pricing of cane, sugar and ethanol.

The rating, however, continues to draw comfort from the company's long operational history and its location advantage resulting in an adequate cane availability, further ensuring high operational efficiency. The rating also favourably factors in the forward integration of sugar operations into power cogeneration and distillery business, which provides the necessary cushion to the company's profitability against the cyclicity in sugar operations. Further, favourable Government policies towards the sugar industry in the form of soft loans, sugar export subsidy and interest subvention schemes, among others, also support the profitability metrics of the sugar mills to an extent.

The stable outlook reflects ICRA's expectation that the company would be able to ensure adequate cane availability, given its strong relations with farmers, which along with its integrated operations would support its revenues and profitability.

Key rating drivers and their description

Credit strengths

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

Favourable location and integrated sugar operations- Shahu Sugar benefits from its presence in the high cane yield and high sugar recovery Kolhapur zone of Maharashtra. Given the conducive climate and topography, the cane yields in the company's catchment area historically have been above 80 MT/hectare while sugar recovery has been above 12%. Its sugar operations are forward integrated into distillery and power cogeneration operations. While the by-products provide an alternative source of revenue, they also cushion the company's profitability against the inherent cyclicity in the sugar business.

Favourable Government policies towards industry – The company benefits from the various fiscal incentives extended by the Government to the domestic sugar industry, which include subsidy for sugar exported, soft loans and interest subvention schemes. The Government has also promoted ethanol manufacturing from B-molasses against C-molasses, mainly by offering it a relatively higher realisation, which is likely to support the profitability and cash flows of integrated sugar units like Shahu Sugar.

Credit challenges

Leveraged capital structure and weak debt coverage metrics - The company's debt levels continued to remain elevated and increased to Rs 393.17 crore as on March 31, 2021, from Rs 343.06 crore as on March 31, 2020, owing to a Covid-19 loan availed by the company and a higher working capital utilisation as on year end. Its gearing increased to 3.95 times as on March 31, 2021, from 3.52 times as on previous fiscal end. The coverage indicators continued to remain modest in FY2021 with a marginal decline vis-à-vis the previous fiscal, with interest coverage of 1.71 times (P.Y¹. 1.85 times) and DSCR of 0.76 time (P.Y. 1.08 times).

Increased working capital intensity with high-inventory holdings – As is inherent in the sugar industry, the company's inventory levels remain on the higher side because of the seasonal nature of business. The build-up of sugar stock reaches its peak at the fiscal year end (March), resulting in high working capital requirements. The inventory levels remained elevated at 300 days as on March 31, 2021, resulting in a high working capital intensity of 64% (PY: 65%).

Sizeable repayment obligations in the near to medium term - The company has significant debt repayment obligations of Rs. 41.37 crore in the next fiscal (FY2023) against its outstanding term borrowings. Timely liquidation of the high sugar stocks at adequate prices remains critical for its profitability and liquidity.

Exposure to agro-climatic risks and cyclical trends - 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 co-operative'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 to volatility in sugar realisations and cane procurement costs - Typically, the profitability of sugar entities remains driven by sugar realisations and cane procurement costs. Whereas sugar realisations remain mainly 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** with negative free cash flows in the past few fiscals. 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. Its cash flows are expected to remain under pressure in the near term given the high scheduled repayments. These are expected to be met from a mix of working capital bank lines and liquidation of stock.

Rating sensitivities

Positive factors – ICRA could upgrade the rating of Shahu Sugar if it is able to demonstrate a significant improvement in its capitalisation, coverage indicators and liquidity position. A specific credit metric leading to a rating upgrade would be maintaining a DSCR of 1.40 times or above on a sustained basis.

Negative factors – Negative pressure on Shahu Sugar's rating could arise from any significant deterioration in profitability metrics or increase in working capital intensity adversely impacting its liquidity profile. Additionally, any significant debt-

¹ P.Y. Previous Year

funded capital expenditure (capex) adversely impacting the capital structure and debt coverage metrics is also a negative rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for sugar entities
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Shahu Sugar, incorporated in 1977, is based at Kagal, in Kolhapur district of Maharashtra. It has an installed crushing capacity of 7,500 TCD, which is integrated with a cogeneration unit of 21.50 MW and a distillery of 60 KLPD. The catchment area of the company extends to 104 villages across Maharashtra and Karnataka.

Key financial indicators (audited)

Parameter	FY2020 (Audited)	FY2021 (Audited)
Operating Income (Rs. crore)	434.24	507.97
PAT (Rs. crore)	0.90	1.08
OPBDIT/OI (%)	10.76%	9.70%
PAT/OI (%)	0.21%	0.21%
Total Outside Liabilities/Tangible Net Worth (times)	4.50	5.31
Total Debt/OPBDIT (times)	7.34	7.98
Interest Coverage (times)	1.85	1.71

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; FY2021 consolidated financials were not available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

SN	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding [^] (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
					28-Jan-2022	28-Oct-2020	23-Mar-2020	14-Jan-2019	
1	Term Loans	Long Term	50.00	10.13	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	
2	Cash Credit	Long Term	50.00		[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Negative)	

Source: Company; [^] as on December 31, 2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term loans	Simple
Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's 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 loans	FY2014	-	FY2026	50.00	[ICRA]BB+ (Stable)
NA	Cash credit	-	-	-	50.00	[ICRA]BB+ (Stable)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable	Not applicable	Not applicable

Source: Company

ANALYST CONTACTS

Sabyasachi Majumdar

+91 124 4545 304

sabyasachi@icraindia.com

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Vikram V

+91 40 4067 6518

vikram.v@icraindia.com

Tushar Bharambe

+91 22 6169 3347

tushar.bharambe@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

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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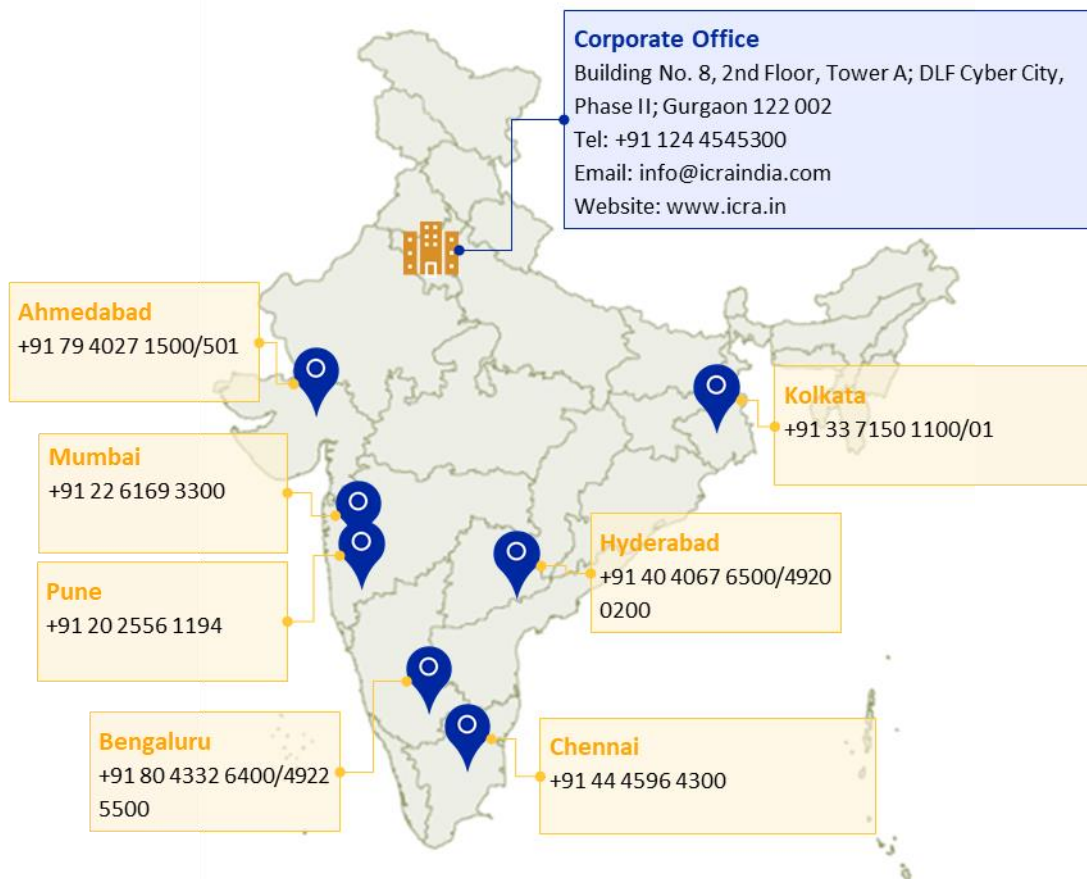
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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