November 03, 2021

Daund Sugar Private Limited: [ICRA]BBB+ (Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Working Capital Facilities	315.00	[ICRA]BBB+ (Stable)/[ICRA]A2; Assigned
Bank Guarantee	10.00	[ICRA]A2; Assigned
Unallocated Limits	100.00	[ICRA]BBB+ (Stable)/[ICRA]A2; Assigned
Total	**425.00**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings factor in Daund Sugar Private Limited's (DSPL or the company) long and established track record in the sugar industry. Further, the company's financial risk profile is strong, marked by healthy net worth base, leading to comfortable capital structure; decent operating profitability and above average debt coverage indicators. The company also benefits from its forward-integrated sugar plant, which comprises 90 kilo litre per day (KLPD) distillery and 18 mega-watt (MW) co-generation capacities. ICRA also notes that the company's performance is expected to improve going forward, owing to the firmed-up sugar prices in the domestic and the international markets.

The rating, however, is constrained by the company's declining operating profitability over FY2020-FY2021, compared to the past fiscals, and the high working capital intensity during the peak season as witnessed in other sugar companies. The rating also considers the fact that the companies in the sugar industry are exposed to the inherent cyclicality 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 Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the company will continue to benefit from its established position in the sugar industry while maintaining decent profitability and coverage metrics.

Key rating drivers and their description

Credit strengths

Established track record in sugar industry - The company has an established track record in the sugar industry spanning more than a decade. The company is managed by Mr. Jagdish Kadam (chairman), Mr. Shahaji Gaikwad, Mr. Vivek Jadhav and Mr. Virdhaval Jagadale. The key promoter, Mr. Jagdish Kadam, has experience of more than a decade in the sugar industry. Apart from the sugar industry, Mr. Jagsish Kadam is also associated with many infrastructure/construction and food processing companies.

Integrated sugar operations - The company benefits from its forward-integrated sugar plant, which comprises 90 KLPD distillery and 18 MW co-generation capacities. Ethanol produced in the distillery is procured by the oil marketing companies (OMCs) at remunerative rates (Rs. 57.61/litre for B-heavy ethanol) decided by the government; additionally, ~55-60% of the total power units generated through the co-generation plant are exported to Maharashtra State Electricity Distribution Company Limited (MSEDCL). The revenue from the distillery unit was Rs. 126.45 crore and that from the cogeneration unit was Rs. 39.37 crore in FY2021 (provisional financials).

Healthy financial risk profile - The company's financial risk profile is healthy, marked by a strong net worth base of Rs. 455.84 crore as on March 31, 2021 (provisional financials), which leads to a comfortable capital structure. Also, the company's debt coverage indicators are above average, marked by Total Debt/OPBDITA of 3.52 times, DSCR of 2.98 times and interest coverage of 5.33 times in FY2021 (provisional financials). Further, the company's operating profitability is decent, but it has witnessed a decline over the last two fiscals, staying in the range of ~14.30-15.60% over FY2020-FY2021 compared to the levels of ~19.30-23.70% over FY2016-FY2019. Going forward, the capital structure and coverage metrics are expected to improve in line with the expected improvement in scale and profitability along with scheduled debt repayments.

Credit challenges

High working capital intensity during peak season - The company's working capital intensity is pushed upwards mainly by the higher sugar inventory at the year end because the typical sugar crushing season starts in the second half (since October) of the financial year. The working capital intensity also remains contingent on the regulatory intervention in terms of minimum stocking as well as prevailing sugar prices as it can impact the inventory position of the sugar manufacturers. The company's NWC/OI stood high at 82% in FY2021 against 84% in FY2020.

Exposure to agro-climatic risks and cyclical trends in sugar business - Being an agri-commodity, the sugar cane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, sugar prices derive support from the minimum selling price (MSP) for sugar set by the Central Government since June 2018. Over the long term, higher ethanol production with increased usage of B-heavy molasses and direct sugarcane juice is expected to help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Vulnerability to Government/regulatory policies - The sugar industry is highly regulated, with various Government Acts governing virtually all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and byproduct pricing. Thus, the company's operations remain vulnerable to any unfavourable changes in government policies. Typically, the profitability of sugar entities is driven by sugar realisations and cane procurement costs. While sugar realisations are mainly market driven, subject to floor price levels, the government fixes the fair and remunerative price (FRP)/ state administered price (SAP) for cane. Thus, any adverse movements in the sugarcane pricing may impact the contribution margins and, hence, the profitability of sugar mills.

Liquidity position: Adequate

DSPL's liquidity position is adequate as evident from the sufficient cash accruals to service the debt obligations. The company's annual cash accruals of ~Rs. 71.00-75.00 crore are expected to be comfortable against the annual debt repayment obligations of Rs. 5.62-17.87 crore over FY2022-FY2023. Further, the company's free cash and bank balances were decent at Rs. 27.47 crore as on March 31, 2021. Notwithstanding this, like 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 position is concerned.

Rating sensitivities

Positive factors:

- Improvement in profitability while maintaining the scale of operations, leading to improvement in key credit metrics
- Improvement in working capital cycle and liquidity position

Negative factors:

- Significant deterioration in scale and profitability leading to deterioration in key credit metrics; interest coverage of 3.0 times or below on a sustained basis

- Significant debt-funded capex or stretch in working capital cycle adversely impacting the company's liquidity profile

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 financials of the company.

About the company

Daund Sugar Private Limited was set-up as a co-operative sugar factory and got its current name post the takeover by the current set of promoters in 2008 under the liquidation process. The company's unit is located in Alegaon village in Daund taluka, Pune, Maharashtra. The sugar plant has a cane crushing capacity of 6000 tonnes crushed per day (TCD), distillery with a capacity of 90 KLPD and cogeneration capacity of 18 MW. The company also has an in-house polypropylene (PP) bag manufacturing unit.

Key financial indicators

	FY2020	FY2021 (Provisionals)
Operating Income (Rs. crore)	494.79	594.38
PAT (Rs. crore)	26.85	52.48
OPBDIT/OI (%)	14.4%	15.6%
RoCE (%)	8.4%	11.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.0
Total Debt/OPBDIT (times)	4.0	3.5
Interest Coverage (times)	3.5	5.3
DSCR (times)	2.6	3.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net Worth + Deferred Tax Liability - Capital Work in Progress); DSCR: (PBIT + Mat Credit Entitlements - Fair Value Gains through P&L - Non-cash Extraordinary Gain/Loss)/(Interest + Repayments made during the Year).

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Nov 03, 2021	-	-	-
1	Working Capital Facilities (Pledge Loan)	Long-term/Short-term	315.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2	-	-	-
2	Bank Guarantee	Short-term	10.00	-	[ICRA]A2			
3	Unallocated Limits	Long-term/Short-term	100.00	-	[ICRA]BBB+ (Stable)/[ICRA]A2			

Complexity level of the rated instruments

Instrument	Complexity Indicator
Working Capital Facilities (Pledge Loan)	Simple
Bank Guarantee	Very Simple
Unallocated Limits	Not Applicable

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

Bank Name/ ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Working Capital Facilities	NA	NA	NA	315.00	[ICRA]BBB+ (Stable)/[ICRA]A2
NA	Bank Guarantee	NA	NA	NA	10.00	[ICRA]A2
NA	Unallocated Limits	NA	NA	NA	100.00	[ICRA]BBB+ (Stable)/[ICRA]A2

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

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Sanket Thakkar
+91 79 4027 1528
sanket.thakkar@icraindia.com

Rishi S Tekchandani
+91 79 4027 1519
rishi.tekchandani@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

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.