

June 10, 2019

Rajarambapu Patil Sahakari Sakhar Karkhana Limited: Rating reaffirmed

Summary of rating action

Instrument	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based – Cash Credit	500.0	500.0	[ICRA]BB- (Stable); reaffirmed
Total	500.0	500.0	

Rationale

The rating reaffirmation takes into consideration the Rajarambapu Patil Sahakari Sakhar Karkhana Limited ('RPSSKL' or 'the company')'s long-standing track record of operations along with adequate cane availability over the years owing to presence in the cane rich region. The business risk profile of the company is highlighted by high sugar recovery due to good quality sugarcane in the command area and adequate operating efficiencies as reflected in healthy capacity utilisation in the past. The operational performance of the sugar business remained comfortable in FY2019 supported by healthy cane availability and resultant appropriate duration of the crushing season. It is expected to remain comfortable in FY2020 as well. The revenue growth of the company in FY2020 is likely to be supported by adequate sugar realisations as a result of expected lesser cane availability for crushing due to patchy rainfall in the country in FY2019. The same is likely to moderate the ongoing sugar surplus scenario and uplift the sugar prices in FY2020. The profitability is also expected to remain adequate in FY2020 supported by high volume sales with better realisations coupled with the ongoing government support measures in terms of bailout package, cane subsidy and interest subvention. The rating also derives comfort from the company's forward integrated operations, with co-generation unit and distillery unit providing additional source of revenue through power and liquor sale respectively which reduces the impact of the cyclicity of the sugar business to an extent. Further the government support program to divert sugarcane towards ethanol production instead of sugar production may additionally support RPSSKL in the near term.

The rating, however, continues to remain constrained by highly leveraged capital structure owing to significant long-term debt and eroded net-worth position of the company over the past four fiscals. The working capital intensity remains to moderate to high depending on its inventory stocking policy and the quantum of cane arrears to be paid to farmers. The liquidity position remains stretched due to debt funded capex incurred over the past three fiscals and inadequate accruals through its business operations. The assigned rating also factors in the cyclicity associated with the sugar business, agro-climatic risks related to cane production and government policies on cane pricing, sugar trade and import duties. Further its co-generation unit remains exposed to the counterparty risks due to likelihood of irregularity in payments from the -MSEDCL (Maharashtra State Electricity Distribution Co. Ltd). ICRA notes that the company may have to rely on additional financing in the form of short term debt, given the high repayment obligations in FY2019 and FY2020 and estimated accruals inadequate to serve the liabilities. Thus improvement in liquidity will remain critical from the credit perspective.

Outlook: Stable

ICRA believes that the profitability of RPSSKL is expected to remain at ~9.0% -10.0% owing to adequate revenue growth and higher absorption of fixed cost. Further government support measures in terms of cane subsidy and export transport subsidy is likely support the profitability in FY2019 as well as FY2020. The outlook may be revised to 'Positive' if RPSSKL's financial risk profile improves considerably, primarily reflected in improved capital structure and liquidity as well as better working capital management. The outlook may be revised to 'Negative' if the liquidity position deteriorates the

capital structure and coverage indicators weaken or there is a considerable decline in sugar realisations coupled with significant increase in sugarcane prices which will impact cash flow position of the company.

Key rating drivers

Credit strengths

Long operating history of the company which has completed over four decades of sugar cycles; high sugar recovery rate over the years - RPSSKL has demonstrated strong operating efficiencies over the years. The company's crushing volumes have reported significant growth of ~47% in SY2018 on a YoY basis due to increase in the cane availability driven by above average monsoon in the previous two seasons. Further the recovery rate continues to remain one of the highest in Maharashtra owing to good quality cane in the command area due to favorable climatic conditions, fertile soil, cane development activities and adequate irrigation facilities.

Forward Integration into cogeneration and distillery provides some cushion against the cyclicity in the sugar business

The company's 14,500 TCD sugar operations are fully integrated with 40 Mega Watt (MW) power generation plant and 75 Kilo Litres Per Day (KLPD) distillery plant which act as additional sources of revenue and provide some comfort to profitability against cyclicity in the sugar business. The company presently derives ~13% of its revenues from the distillery division. RPSSKL is a large liquor manufacturer of Indian Made Foreign Liquor (IMFL) and country liquor in the co-operative sector of Maharashtra with a production capacity of 6200 cases per day. Going forward, the revenue share of distillery division is expected to improve, given the Government's thrust on increasing the ethanol blending program and divert sugarcane towards ethanol production instead of sugar production which may additionally support RPSSKL in the near term.

High entry barriers in liquor manufacturing business provides competitive advantage to the company

Liquor policies governing its production and sale are entirely controlled by respective state governments. With all the alcohol consuming States/Union Territories having their own regulations and entry-exit restrictions, it is very difficult for new entrants to get licenses thus providing a competitive advantage to existing players like RPSSKL.

Credit weaknesses

Financial profile characterised by highly leveraged capital structure and stretched coverage indicators - The company incurred a significant net loss of Rs. 78.2 Crore in FY2015 which led to negative contribution margins for the company and substantial net worth erosion. The company had to rely on external financing to pay the cane prices resulting in increase in debt. Further, substantial debt funded capex over the past two fiscals has elevated overall debt levels. Hence, the capital structure and coverage indicators remain stretched. It also continues to remain impacted by its working capital borrowing in terms of pledge loans, which is contingent upon the inventory levels maintained at the year end and the amount of cane arrears to be paid to farmers. Going forward, with the expected improvement in net accruals, though the capital structure and coverage indicators are expected to improve YoY, overall the financial profile is expected to remain weak in near to medium term.

Exposure to agro climatic risks and cyclical trend in sugar industry – Cane production remains a function of the agro climatic conditions which impact the volume and realisation of sugar and its bi-products. Further the sugar business also remains vulnerable to any unfavourable changes in the Government policies related to sugar trade.

Vulnerability of profitability to volatility in sugar realisation and cane procurement cost – Typically, the profitability of the sugar entities is driven by the sugar realisations and cane procurement costs. On one hand, the sugar realisations are primarily market driven, though some policy changes impact the sugar prices. On the other hand, the State Government fix the minimum support price for the cane de-linking it to an extent from the sugar realisations. Further the 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 (GOI) policies regarding exports of sugar and import duties. Any adverse movements in the same impacts the contribution margins and hence profitability of the sugar mills.

Liquidity Position:

The cash flow position of RPSSKL is likely to remain weak in the near term on account of high working capital intensity and sizeable interest expenses. Further, the company utilises working capital limits to the extent of ~85% of the drawing power and has minimal cash and bank balances which leads to stretched liquidity position. The company typically relies on short term debt for servicing the deficit and the trend is likely to continue in FY2020 as well.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group Support	NA
Consolidation / Standalone	The rating is based on standalone financial statements of the issuer.

About the company:

RPSSKL was established in 1968 under ‘The Maharashtra Co-operative Society Act 1960’ as ‘Walwa Taluka Sahakari Sakhar Karkhana Limited’ to undertake sugar production in Sangli, Maharashtra. The name was subsequently changed to Rajarambapu Patil Sahakari Sakhar Karkhana Limited. RPSSKL is a part of the Sangli based ‘Rajarambapu Group’ which has presence in businesses like sugar, dairy and co-operative banking. RPSSKL operates its sugar mill out of four locations - Sakhrale, Wategaon, Karandwadi and Jath in Sangli district with total installed crushing capacity of 14,500 TCD (tones crushed per day). However for crushing season 2017-18, the company is utilising 12,000 TCD crushing capacity through its Sakhrale, Wategaon and Karandwadi unit as the Jath unit remained non-operational.

It has also setup a bagasse-based cogeneration power plant of 40 mega-watt (MW) capacity and a distillery unit with a capacity of 75 kilo litres per day (KLPD) under which it manufactures Indian made foreign liquor (IMFL) under the brand names like McDowell’s no.1 Celebration Rum, Haywards Fine Whisky, Bagpiper Whisky, Blue Riband Gin and Blue Riband Duet Gin. It also manufactures country liquor with 12 patented brands.

In FY2018, the company reported a net profit of Rs. 5.9 crore on an operating income of Rs. 892.3 crore, as compared to a net profit of Rs. 11.3 crore on an operating income of Rs. 887.8 crore in the previous year.

Key Financial Indicators – (Audited)

	FY 2017	FY2018
Operating Income (Rs. crore)	887.8	892.3
PAT (Rs. crore)	11.3	5.9
OPBDIT/ OI (%)	12.1%	10.9%
RoCE (%)	9.5%	7.6%
Total Debt/ TNW (times)	18.9	15.5
Total Debt/ OPBDIT (times)	8.4	8.8
Interest coverage (times)	1.5	1.5
NWC/ OI (%)	69%	66%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	June 2019	March 2018	FY2017	FY2016
1 Fund Based – Cash Credit	Long Term	500.0	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-

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	Cash Credit	-	-	-	500.0	[ICRA]BB- (Stable)

Source: RPSSKL

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

Company Name	Ownership	Consolidation Approach
NA	NA	NA

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