Press Release

Jai Hind Sugar Private Limited (JHSPL)

January 31, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1	Long Term (Fund based)- Term Loan	219.20	IVR BBB-/Positive Outlook; (IVR Triple B Minus with Positive Outlook)
2	Long Term (Fund based)-Cash Credit	5.00	IVR BBB-/Positive Outlook; (IVR Triple B Minus with Positive Outlook)
Total		**224.20**	

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from the experienced promoters & funding Support, Improving Scale of operation, Incremental benefits from integrated nature of operations after completion of ongoing capex, Power Purchase Agreement and recent government measures for sugar sector. The rating however is constrained by Moderate debt protection metrics, Elongated cash conversion cycle; albeit improving, Risk related to Agro climatic factors & Government regulations. The outlook is positive on account of the company expected to benefit from its capital expansion into upcoming ethanol plant and new co-gen power production.

Key Rating Sensitivities:

Upward Rating Factor

- Increase in scale of operation from commencement of ethanol Plant
- Sustained improvement in Debt protection metrics.

Downward Rating Factor

- Decline in profitability due to any company or industry related factors leading to deterioration in debt protection metrics.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters and funding Support

Mr. Bhaskar Mane and his Father Bhaskar Sidram Mane who are the promoter of company has collective experience of more than 10 years of experience in sugar industry and has established a healthy relationship with local farmers. The Company has a resourceful promoter and it is likely to benefit from the funding support of its promoters over the medium term. JHSPL's promoters has extended unsecured loans of Rs. 59.85 Crore as on as on 31st March, 2019 which has been considered as a quasi –equity

Healthy Scale of operation

JHSPL'S operating income has been increasing at a CAGR of 103.94% from FY17 to FY19. The operating income has increased by 99.70% y-o-y in FY19. It has total crushing capacity of crushing 4500 tonne of cane per day and a co-gen plant of 18 megawatt (MW) of power. Over the last three years PAT has also improved significantly for JHSPL

Incremental benefits from integrated nature of operations after completion of ongoing capex

JHSPL's operations are semi-integrated in nature. There is an existence of forward integration in form of power co-generation capacity of 18 Megawatt (MW) and also JHSPL is setting up an Ethanol plant of 60 kilo litre per day (KLPD) which will be completed by November 2020. The integration will lead to better absorption of fixed cost and any increase in the raw material cost. During FY19, almost 79% of the revenue is generated from sugar sales and 14.29% revenues from the sale of power from the co-gen Plant. Rest is contributed by sale of molasses, bagasse, press mud, ash and flower.

Power Purchase Agreement providing long term revenue visibility

JHSPL has signed a long term Power Purchase Agreement (PPA) with Maharashtra State Electricity Distribution Co. Ltd (MSEDCL) for a period of 13 years at the rate of Rs. 6.89 per unit. This provides the company with assured long term revenue for 13 years.

Recent government measures for sugar sector

Indian Government has supported the sugar prices by increasing the minimum selling price of sugar by Rs. 2 per kg in February 2019. The Cabinet Committee on Economic Affairs (CCEA) has approved sugar export policy for evacuation of surplus stocks during sugar season 2019-20. The CCEA has given nod to sugar export subsidy of about Rs 6,268 crore for SY20 in order to liquidate surplus domestic stock and help mills in clearing huge sugarcane arrears to farmers in August 2019. The cabinet has approved export subsidy for 6 lakh metric tonne (LMT) for 2019-20. The government will provide a lump sum subsidy of Rs 10,448 per metric tonne to sugar mills for the sugar season 2019-20. The export subsidy will be provided for expenses on marketing costs including handling, upgrading and other processing costs, international and internal transport costs and freight charges. The subsidy would be directly credited into farmers' accounts on behalf of mills against sugarcane price dues. Subsequent balance, if any, would be credited to mills' account.

Key Rating Weaknesses

Moderate Debt Protection Metrics

JHSPL has taken loans for setting up of an Ethanol Plant in Phase II which is expected to commence operation by November 2020. The new plant cost has impacted its debt parameter. Interest coverage ratio stood at 0.98x in FY19 as compared to 1.24 in FY18. Over all Gearing stood at 2.43x and TOL/TNW stood at 7.80x in FY19. Infomerics expects debt protection metrics to improve substantially from FY22 due to incremental benefits arising out of on-going capex.

Elongated cash conversion cycle; albeit improving

The cash conversion cycle of JHSPL is high at 252 days in 2019 due to high inventory days of 363 days which is common in sugar industry as company has to maintain high level of inventory during the crushing season.

Agro Climatic factors

Sugarcane is the key input into the sugar business. Sugarcane is a Kharif crop, production of which depends on monsoons. Any adversity on the timely and adequacy of rainfall, given highly uneven pattern of rainfall observed in the last few years, would drastically affect the availability and price of Sugarcane thereby affecting profitability of the business.

High Regulations and exposure to risk related to government regulations

Sugar industry is exposed to risks related to Government regulations. This makes its operating profitability susceptible to any policy measure announced by the Government to support sugarcane producers and to keep the sugar prices in check. Vulnerability in business due to Government regulations is likely to continue over the medium term. The industry is highly regulated with inability in passing increased costs to buyers and lack of control over input prices.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for manufacturing companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

The liquidity profile of the company is stretched marked by the average utilization of around 100% during the 12 months ended October 31, 2019. The company has a Current Ratio of 1.02x as of March 31, 2019. Going forward, the liquidity profile of JHSPL is expected to improve due to incremental benefits arising out of new co-gen plant & ethanol plant leading to higher EBITDA margin. The cash & cash equivalent was Rs. 11.27 Crore as on FY19. Liquidity is expected to remain comfortable.

About the company

Incorporated in 2006, Jai Hind Sugar Private Limited (JHSPL) is promoted by Mr Bhaskar Sidram Mane and his son Mr. Ganesh Mane. JHSPL manufactures sugar at its plant, located in Solapur, Maharashtra, which has a total cane crushing capacity of 4,500 tonnes per day. It also has a co-gen power capacity of 18 MW.

Financials (Standalone) **(Rs. Crore)**

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	115.85	232.08
EBITDA	34.53	33.88
PAT	0.56	2.52
Total Debt	252.57	274.26
Tangible Net worth	40.37	52.88
EBIDTA Margin (%)	29.80	14.60
PAT Margin (%)	0.48	0.98
Overall Gearing ratio (x)	2.76	2.43

* Classification as per Infomerics' standards

Details of Non-Cooperation with any other CRA:

India Ratings & research in its press release published on November 27, 2018 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information.

Crisil has also in its press release published on February 22, 2019 has classified the case under Issuer Not Cooperating status on account of non-submission of relevant information.

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding 30.03.2019 (Rs. crore)	Rating	Rating assigned in 18-19	Rating assigned in 17-18	Rating assigned in 16-17
Fund Based Facilities	Term loan	219.20	IVR BBB- /Positive Outlook	--	--	--
Fund Based Facilities	Cash Credit (CC)	5.00	IVR BBB- /Positive Outlook	--	--	--
	Total	**224.20**				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Sr. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Fund Based Term Loan	--	--	Dec-2034	219.20	IVR BBB- /Positive Outlook
2	Fund Based Cash Credit	--	--	--	5.00	IVR BBB- /Positive Outlook
Total					**224.20**	