Press Release

Shree Durga Khandsari (Sugar) Mills

March 20, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long Term Bank Facilities	55.53	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
	Total	**55.53**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Shree Durga Khandsari (Sugar) Mills (SDKSM) derives comfort from its experienced partners and long track record of operations, proximity to raw material suppliers & key markets, diversified product portfolio and establish relationship with cane growers. The ratings also positively factors in gradual improvement in its profitability metrics and comfortable financial risk profile with comfortable debt protection parameters**.** However, the rating strengths are partially offset by its exposure to vagaries of nature, exposure to risk related to government regulations, moderate recovery rate, working capital intensive nature of operations, cyclical nature of the sugar industry and risks associated with the partnership nature of constitution.

Key Rating Sensitivities:

Upward Factors:

- Improvement in scale of operations and/or profitability metrics thereby leading to overall improvement in cash accruals and debt protection parameters on a sustained basis
- Sustenance of capital structure and improvement in operating cycle with improvement in liquidity

Downward Factors:

- Dip in operating income and/or profitability impacting the debt coverage indicators and subdued industry scenario affecting the sugar price and off take

- Deterioration in operating cycle impacting the liquidity
- Negative government regulations

List of Key Rating Drivers with Detailed Description

- **Experienced partners and long track record of operation**

The Goyal family has around four-decade-long experience in the sugar industry. Long standing presence of the partner in the industry has helped the firm to build established relationships with both customers and suppliers. The Goyal family has two major sugar companies, SDKSM and Shree Kedareshwar Khandsari Udyog. Further, SDKSM has an operational track record of about 25 years.

- **Proximity to raw material suppliers & key markets and establish relationship with cane growers and moderate recovery rate**

The nature of the relationship, which a sugar entity shares with the farming community in the command area, is a key measure of its operational strength. All the sugar mills have their own independent command area for procurement of sugarcane. SDKSM operates in a command area of 15 kilometer of Barawani district in Madhya Pradesh. SDKSM 's sugar season starts during November, which usually gets over by March. On the back of long presence of the Goyal family in sugar sector, the firm enjoys healthy relationship with the farmers. The recovery rate of the firm remained moderate at around 9.75% in the past two fiscals.

- **Diversified product portfolio**

SDKSM is involved in manufacturing of sugar with the capacity of 2500 TCD, with co-generation of 11 MW of power (out of which 4-5MW are for captive consumption and rest are sold to Arunachal Pradesh Power Corporation Pvt. Ltd (APPCPL)). Recently the firm started ethanol manufacturing (plant commenced from March 2019) by setting up a plant with capacity of 45 KLPD. A diversified product portfolio enables the firm to spread its risk and reduces dependency on single/few products.

- **Gradual improvement in profitability metrics**

The profitability metrics of SDKSM has improved gradually over the past three fiscals (FY17-FY19) driven by increase in capacity utilisation leading to higher absorption of fixed overheads along with increase in contribution from high margin power revenue (Started from FY18 and thereafter increased from Rs.6.25 crore in FY18 to Rs.10.74 in FY19) over the past three years. The EBITDA margin improved from 11.17% in FY17 to 23.97% in FY19. With improvement in EBITDA margin and absolute EBITDA, the PAT margin has improved from 3.02% in FY17 to 5.92% in FY19. The gross cash accruals of the firm also grew from Rs.9.44 crore in FY17 to Rs.16.20 crore in FY19. However, SDKSM witnessed a decline in operating revenue by ~28% in FY19 mainly due to restrictions imposed by the government to control the supply of the sugar in market. This resulted in piling up of finished goods inventory (finished stock worth Rs.54 crore in FY19) and moderation in sugar sales. During 11MFY20, the firm has achieved an operating income of Rs.124.12 crore with an EBITDA margin of 17.72%.

- **Comfortable financial risk profile with comfortable debt protection parameters**

The financial risk profile of SDKSM remained comfortable marked by its comfortable leverage ratios and comfortable debt protection metrics. The net worth stood at of Rs.61.48 crore as on March 31, 2019. To arrive at the net worth, Infomerics has considered unsecured loans amounting to Rs.15.00 crore arranged by the partners as quasi equity as the same is subordinated to the bank facilities. The capital structure of the firm stood satisfactory though the long term debt equity ratio and overall gearing ratio moderated from 0.23x and 0.48x respectively as on March 31, 2018 to 0.64x and 1.08x respectively as on March 31, 2019 due to availment of term loan to fund the capex for setting up the Ethanol plant, which commenced operations from March 2019. The total indebtedness of the firm as reflected by TOL/ANW stood satisfactory at 1.66x as on March 31, 2019.

Key Rating Weaknesses

- **Exposed to vagaries of nature**

Being an agro-based industry, performance of SDKSM is dependent on the availability of sugarcane crop and its yield, which may get adversely affected due to adverse weather conditions. The climatic conditions and pest related attacks have a bearing on the cane output, which is the primary feedstock for a sugar producer. Climatic conditions, to be precise the monsoons influence various operational strictures for a sugar entity, such as the crushing period and sugar recovery levels. In addition, the degree of dispersion of monsoon precipitation across the sugar cane growing areas also leads to fluctuating trends in sugar production in different regions.

- **Exposure to risk related to government regulations**

The Sugar industry is highly exposed to risks related to Government regulations. Various Government Acts virtually governs all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by - product pricing. In Madhya Pradesh sugar cane prices are governed through fair and remunerative price (FRP) regime, suggested by the Commission for Agricultural Costs and Prices (CACP) and announced by the Central Government (which is now Rs.275 per quintal and susceptible to change as per government policy). Further, high Government intervention also exists to control the sugar prices to curb food inflation and stabilise the sugar prices in the domestic market. Moreover, ethanol-blending policy is also highly regulated by the government. Vulnerability in business due to Government regulations is likely to continue over the medium term.

- **Working capital intensiveness**

Since sugar is an agro-based commodity (with sugarcane crushed mainly during November to April), sugarcane has to be crushed within a day or two of its arrival in the mills. Hence, the sugar inventory is piled up during the crushing season and gradually released till the commencement of the next crushing season, resulting into high inventory carrying cost and requirement of higher working capital. Further, the firm has elongated collection period of about two months. The operating cycle of the firm remained elongated at 141 days in FY19. The working capital requirements are largely funded by credit period availed and bank borrowings.

- **Cyclical nature of the sugar business**

The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country with typical sugar cycles lasting three five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.

- **Risks associated with partnership constitution**

Given SDKSM's constitution as a partnership firm, it remains exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The firm earned a GCA of Rs.16.20 crore in FY19 as against its repayment obligation of Rs.2.83 crore. Further, the liquidity position of the firm is expected to remain adequate as the firm is expected to generate steady cash accrual ~Rs.18-18.50 crore during FY20-22 as against its scheduled repayment obligation in the range of ~Rs.2.40 -5 crore during the aforesaid period. However, its bank limits remained utilized to the extent of ~57% during the past 12 months ended February 2020 indicating an adequate liquidity buffer.

About the Entity

Mr. Kailashchand Laxmichand Goyal of Sedhwa had established Shree Durga Khandsari (Sugar) Mills (SDKSM) as a partnership firm along with his family members in 1992 at Barwani, Madhya Pradesh. The firm is engaged in production and sale of sugar with an installed capacity of 2500 TCD & its by-products (molasses and bagasse) and power co-generation with 11 MW of power where Bagasse is used as feedstock. The firm has recently started ethanol production process by setting up a plant having capacity of 45KLPD (operations commenced from March 2019).

Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	122.42	88.43
EBITDA	16.78	21.19
PAT	4.08	5.27
Total Debt	23.68	66.60
Tangible Net worth^	49.79	61.48
EBITDA Margin (%)	13.71	23.97
PAT Margin (%)	3.32	5.92
Overall Gearing Ratio (x)^	0.48	1.08

*classification as per Infomerics standard

^considering Loan from directors, related parties and group companies of Rs. 15.00 crore has been treated as Quasi-equity

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Term Loan	Long Term	26.03	IVR BBB- /Stable Outlook	-	-	-
2.	Cash Credit	Long Term	29.50	IVR BBB- /Stable Outlook	-	-	-

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities - Term Loan	-	-	-	26.03	IVR BBB-/Stable
Long Term Bank Facilities - Cash Credit	-	-	-	29.50	IVR BBB-/Stable