



Press Release

Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd

(STKWSSKL)

July 27 2022

Rating

Sr. No.	Instrument/ Facility	Amount (INR Crore)	Rating Assigned	Rating Action	Complexity Indicator
1	Long Term Bank Facilities	499.00 (Reduced from Rs. 690.29 crores)	IVR BB-/ Stable Outlook [IVR Double B minus with Stable Outlook]	Rating Revised	Simple
	Total	499.00			

Details of facilities are in Annexure 1

Rating Rationale

The revision in the rating of the bank facilities of Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd derives strength from Long operating history spanning seven decades, favourable geographical set-up, adequate sugar recovery levels, forward integration into distillery operations provides some cushion against cyclical sugar business, Government support to sugar industry; fiscal benefits with soft loans, threshold sugar realisations and cane procurement cost, Power Purchase Agreement providing long term revenue visibility, Increased thrust on ethanol production and Shortfall undertaking from subsidiary. The ratings are, however, constrained by Working capital intensive operations, cyclicity in the sugar business, exposed to vagaries of nature, Exposure to risk related to government regulations and Leveraged capital structure.

Key Rating Sensitivities:

➤ **Upward Rating Factor:**

- Sustained and significant improvement in the scale of operations while maintaining profitability & protection metrics on a consolidated basis.

➤ **Downward Rating Factor:**



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- Any decline in scale of operations and/or profitability, leading significant deterioration of debt protection metrics and/or on a consolidated basis.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Long operating history spanning seven decades, favourable geographical set-up, adequate sugar recovery levels: Incorporated in 1955., Warana Sugar has a long operational history spanning over six decades. Its cooperative set up has close to 22,000 cane producing members which ensures stable cane supply year-on-year. The cooperative's command area is located in Kolhapur district of Maharashtra but being a multistate cooperative society can purchase cane from neighbouring states. Warana 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 the state.

Forward integration into distillery operations provides some cushion against cyclical sugar business: The company's sugar operations are forward integrated into distillery operations. While the by-products provide an alternative source of revenue, they also cushion the company's profitability against the inherent cyclical nature in the sugar business. In FY2022, Warana Sugar derived 74% of its revenues from sugar operations while 15.00% revenues were garnered from ethanol and molasses.

Government support to sugar industry; fiscal benefits with soft loans, threshold sugar realisations and cane procurement cost: The company also benefits from the various fiscal incentives extended by the Government to the domestic sugar industry, which include subsidy for sugar exported, soft loans as well as interest subvention schemes. The Government of India also fixes the threshold cane procurement price annually, while periodically revising the minimum sugar realisations. The Government has also promoted the manufacturing of ethanol from B-molasses against C- molasses mainly by offering it a relatively higher realisation.

Power Purchase Agreement providing long term revenue visibility: Urjankar Shree Tatyasaheb Kore Warana Power Company Limited (Cogen unit of STKWSSKL) has installed a 44 MW co-generation power. The plant is running successfully and about ~32 MW power is exported to the Maharashtra State Electricity Distribution Company Limited (MSEDCL).



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SDSSSKL has signed a long-term Power Purchase Agreement (PPA) with MSEDCL for a period of 13 years (Since December 2012) at the rate of Rs 6.68 per unit. This provides the company with assured long-term revenue for coming years.

Increased thrust on ethanol production: The government is promoting ethanol which will help it to save on the import bill and also helps sugar mills to reduce their dependence on sugar enabling them to clear the cane arrears. To promote ethanol the government has provided interest subvention on loans for ethanol capacity expansion, increased the price of ethanol, and fixed a separate price for B-heavy molasses-based ethanol and ethanol from sugarcane juice etc. Further, Government in June 2021 has also brought forward the deadline to increase the ethanol blending in petrol to 20% by 2030 to 2025. Currently it stands at 7-8%. This will lead to increase in ethanol demand for sugar companies with integrated operations. Currently, sugar companies are able to supply only 70% of tenders floated by oil marketing companies. To further benefit from the favourable Government policies STKWSSKL is undertaking a capacity expansion of its distillery division.

Shortfall undertaking from subsidiary: Shree Tatyasaheb Kore Warana Sahakari Sakhar Kharkhana Limited has strong financial support based on shortfall undertaking provided from Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited. SWSDUPSL through its boards resolution undertake to extend financial support to STKWSSKL amounting to Rs.20 crore in case of any shortfall in debt repayments of the company or in case of need.

Key Rating Weaknesses

Working capital intensive operations, cyclicality in the sugar business: Since sugar is an agro-based commodity. 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, high inventory days of 439 and requirement of higher working capital. The operating cycle of the company remained elongated at 450 days in FY22(Prov.).

Exposed to vagaries of nature: Being an agro-based industry, performance of STKWSSKL 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 structures for a



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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 Maharashtra, 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. Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize 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.

Leveraged capital structure: The capital structure of the company remained leveraged marked by its high overall gearing ratio.

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 factors 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 to five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.

Analytical Approach: Consolidated (For arriving at the ratings, Infomerics has taken a consolidated view of STKWSSKL, along with its subsidiary company, Urjankar Shree Tatyasaheb Kore Warana Power Company Limited, given the common management, later being the cogen unit for STKWSSKL having stake of 66.66% and financial linkage).

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning Rating Outlook.](#)



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Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by steady revenue backed by steady demand of sugar and improvement in sugar realisations. Further, the company is having average cash credit limit utilisations at ~37% in the past 12 months ended May 2022 indicating adequate liquidity buffer. Further, the liquidity is supported by financial support extended by its subsidiary Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited to the extent of Rs.20 crore in the form of short fall undertaking.

About the Company

Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Limited (STKWSSKL) was promoted by Late Mr. Tatyasaheb Kore in September 1955 (founder Chairman). Registered under 'The Maharashtra Co-operative Societies Act, 1960', the company is involved in the manufacture and of sugar and allied products. The sugar factory is the flagship company of the Warananagar, Kolhapur based Warana group encompassing co-operative dairy project (Warana Dairy), co-operative poultry farm, co-operative bank, education institutes in Warana Nagar, Kolhapur, Maharashtra. The STKWSSKL has a subsidiary "Urjankar Shree Tatyasaheb Kore Warana Power Company Limited" (USTKWPCCL) which is a co-generation unit of the company, STKWSSKL has 66.6% stakes in the USTKWPCCL.

Financials (Standalone)

INR in Crore

For the year ended / As on*	31-Mar-21 Audited	31-Mar-22 Provisional
Total Operating Income	480.71	455.20
EBITDA	47.49	56.83
PAT	0.28	0.27
Total Debt	437.79	648.52
Tangible Net Worth	207.47	215.38
EBIDTA Margin (%)	9.88	12.49
PAT Margin (%)	0.06	0.06
Overall Gearing ratio (x)	2.11	3.01

**Classification as per Infomerics' standards*

Financials (Consolidated)



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For the year ended / As on*	31-Mar-21 Audited	31-Mar-22 Provisional
Total Operating Income	657.88	530.59
EBITDA	97.66	109.94
PAT	2.76	30.61
Total Debt	485.58	648.52
Tangible Net Worth	317.68	355.92
EBIDTA Margin (%)	14.84	20.72
PAT Margin (%)	0.42	5.77
Overall Gearing ratio (x)	1.53	1.82

*Classification as per Infomerics' standards

Details of Non-Co-operation with any other CRA: The company i.e. STKWSSKL has been moved to INC by India Ratings & Research as per the Press Release dated December 30, 2021 due to unavailability of the information.

Any other information: Not Applicable

Rating History for last three years:

Name of the Facility/ Instrument	Current Rating (Year: 2022-23)			Rating History for the past 3 years		
	Type	Amount (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (April 29, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
Cash Credit	Long Term	499.00	IVR BB-/ Stable Outlook	IVR B/Stable Outlook	-	-

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About Infomerics:



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Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash credit	-	-	-	499.00	IVR BB-/Stable

Annexure 2: List of companies considered for consolidated analysis:

Name of the company	Consolidation Approach
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Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd	Full Consolidation
Urjankur Shree Tatyasaheb Kore Warana Power Company Limited	Full Consolidation

Annexure 3: Facility wise lender details <https://www.infomerics.com/admin/prfiles/Lender-STKWSSKL-27-07-22.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.