Press Release

Vishnu Sugar Mills Limited
August 21, 2024

Ratings

Facilities	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	122.22	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Reaffirmed	Simple
Long-Term Bank Facilities	3.92	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	-	Assigned	Simple
Short-Term Bank Facilities	0.16	IVR A3 (IVR A Three)	IVR A3 (IVR A Three)	Reaffirmed	Simple
Short-Term Bank Facilities	0.34	IVR A3 (IVR A Three)	-	Assigned	Simple
Long-Term Bank Facility	-	-	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Withdrawn	-
Total	**126.64 (INR One Hundred Twenty six crore and sixty-four lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of the ratings assigned to the bank loan facilities of Vishnu Sugar Mills Limited (VSML) is driven by the stable business performance of the company in FY24 (FY refers to the period from April 01 to March 31) supported by its experienced promoter with long track record of operation coupled with Government's measure to support sugar industry. However, these rating strengths continues to remain constrained by VSML's working capital-intensive nature of operation leading to leveraged capital structure with moderate debt protection metrics. Further, the ratings also consider the cyclical nature of sugar business along with the vulnerability of profitability to agro-climatic and regulatory risks.

The stable outlook reflects expected steady business performance of the company led by expected satisfactory sugar production and stability in sugar realisation.

Infomerics Ratings has simultaneously withdrawn the long rating assigned to Term loan facility with immediate effect. The above action has been taken based on 'No Due Certificate' of the lender received from the company. The rating is being withdrawn in accordance with Infomerics' Policy on Withdrawal of ratings.

Key Rating Sensitivities:

Upward factors

- Growth in operating income with improvement in operating margin and gross cash accruals on a sustained basis
- Improvement in the capital structure with improvement in overall gearing to below 2x and rise in interest coverage ratio to over 3x.
- Improvement in operating cycle leading to improvement in liquidity

Downward Factors

- Decline in revenue and profitability leading to deterioration in debt protection metrics on a sustained basis
- Impairment in the capital structure with moderation in overall gearing to over 4x and interest coverage below 1.5x
- Increase in operating cycle impacting liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoters with long track of operations in sugar industry**

VSML was established in 1932 and has a long track of operation of more than eight decades in Sugar manufacturing. The company is presently managed by Mr. K.K. Bajoria (Director) and family, who have extensive experience and established track record in the sugar industry. The promoters have established healthy customer and suppliers' relations over the years. Further, the promoters are resourceful and has extended support to the company in the form of unsecured loans as and when required in the past.

- **Stable business performance**

Total operating income of VSML has witnessed an y-o-y growth of ~47% and the topline has improved from Rs.132.34 crore in FY23 to Rs.194.07 crore in FY24 (Provisional). The improvement in revenue is mainly driven by higher sales volume led by better sugar production coupled with increase in sales realization. Aided by growth in topline, the absolute EBITDA has improved to Rs.15.18 crore in FY24 (Provisional) against Rs.13.68 crore in FY23. However, owing to higher FRP of sugarcane, the operating margin of VSML has dipped to 7.82% in FY24 (Provisional) as compared to 10.34% of FY23. Consecutively, PAT margin has slightly moderated to 2.08% in FY24 (Provisional) from 2.25% of FY23. In Q1FY25, the company has achieved a revenue of ~Rs.53.85 crore.

- **Government's measure to support sugar industry**

The Central Government has been supporting the sugar industry by way of various measures such as increasing the MSP, interest subvention loans for ethanol expansion, soft loans for clearing cane dues, export subsidy and creation of sugar buffer stock to improve the demand-supply situation in the domestic market.

Key Rating Weaknesses:

- **Leveraged capital structure with moderate debt protection metrics**

The capital structure of the company continued to remain leveraged owing to its moderate net worth base of Rs.42.85 crore as on March 31, 2024 (Prov.), along with high reliance on external borrowing mainly in the form of working capital borrowings. Driven by the accretion of profit to reserve coupled with gradual repayment of term loan, the overall gearing though improved, continues to remain high at 2.56x as on March 31, 2024 (Prov.) against 3.14x as on March 31, 2023. Overall indebtedness marked by TOL/TNW though improved stood high at 4.12x as on March 31, 2024 (Prov.). Driven by improved absolute EBITDA, the interest coverage has slightly improved to 1.59x in FY24 (Prov.) against 1.51x in FY23. Further, Total Debt to EBITDA and Total Debt to GCA though improved yet remains stretched at 7.21x and 18.56 years respectively as on March 31, 2024 (Prov.).

- **Working capital intensive nature of operations**

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, high inventory days of 317 days in FY24 (improved from 388 days in FY23) and requirement of higher working capital. The operating cycle of the company though improved continues to remain elongated at 217 days in FY24 (PY:321 days). The working capital requirements are largely funded by credit period availed and bank borrowings.

- **Vulnerability of profitability to Agro-climatic and regulatory risks**

Being an Agro-based industry, performance of the company 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 monsoon's influence various operational structures 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. Further, Government policies related to sugar trade also plays a crucial role for the sugar industry.

- **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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Criteria of assigning rating outlook

Policy on Default Recognition and Post-Default Curing Period

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria on complexity

Policy on Withdrawal of ratings

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by expected adequate gross cash accruals in the range of ~Rs.7.60-10.80 crore during FY25-FY27 which is expected to be sufficient to meet its scheduled debt obligations ranging from ~Rs.7.00 crore-1.73 crore during the same period. Further, the average working capital utilization of the company remained moderate at ~70-80% over the past twelve months indicating moderate liquidity buffer. However, any adverse impact in the sugar industry or any stretch in operating cycle might be critical for the company.

About the Company

Vishnu Sugar Mills Limited was incorporated in August 1932 and initially the company was promoted by Mr. R. Jhunjhunwala and one Rungta family of Mumbai. Later in 1955, the business was taken over by the current promoters, Mr. Bajoria and his family. The company is engaged in the business of manufacturing of sugar and allied products. The company's manufacturing facility is in Gopalganj District, in the State of Bihar with an installed sugarcane crushing capacity of 5,000 TCD and 6M of Co-generation power plant which is used for captive consumption.

Financials of Vishnu Sugar Mills Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	132.34	194.07
EBITDA	13.68	15.18
PAT	3.00	4.05
Total Debt	121.39	109.49
Tangible Net worth	38.61	42.85
EBITDA Margin (%)	10.34	7.82
PAT Margin (%)	2.25	2.08
Overall Gearing Ratio (x)	3.14	2.56
Interest Coverage	1.51	1.59

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Brickwork Ratings has moved the rating to Isser not cooperating category vide PR dated August 30, 2023 due to non-submission of information by the company despite continuous requests and follow-ups.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					July 11, 2023		
1.	Cash Credit	Long Term	112.00	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
2.	GECL	Long Term	14.14	IVR BBB-/ Stable	IVR BBB-/ Stable	-	-
3.	Bank Guarantee	Short Term	0.50	IVR A3	IVR A3	-	-
4.	Term Loan	Long Term	-	Withdrawn	IVR BBB-/ Stable	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Cash Credit	-	-	-	112.00	IVR BBB-/ Stable
Long Term Fund Based Limits –GECL	-	-	Oct 2027	14.14	IVR BBB-/ Stable
Short Term Non Fund Based Limits –Bank Guarantee	-	-	-	0.50	IVR A3

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-Vishnu-Sugar-21aug24.pdf
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Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/combined analysis: 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