Press Release

JK Sugar and Commodities Private Limited

February 07, 2025

Ratings

Facility	**Amount (Rs. crore)**	**Current Ratings**	**Previous Ratings**	**Rating Action**	**Complexity Indicator**
Long Term Bank Facilities- Cash Credit	25.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	--	Assigned	Simple
Proposed Long Term Bank Facilities- Cash Credit	25.00	IVR BB+/ Stable (IVR Double B Plus with Stable Outlook)	--	Assigned	Simple
Total	**Rs. 50.00 crore (Rupees fifty crore only)**				

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

Detailed Rationale

Infomerics Ratings assigned rating of IVR BB+/Stable to the bank facilities of JK Sugar and Commodities Private Limited (JKSAC) based on the company's experienced management team, expanding operational scale, albeit with modest profitability, and a business model characterized by low risk. However, the rating is constrained by risks such as exposure of revenues to changes in government regulations, vulnerability to agro-climatic factors, and the cyclical nature of the sugar industry. Additionally, the company has a low net worth, which results in a leveraged capital structure.

The Stable outlook reflects Infomerics expectation of steady growth, with a projected revenue increase at CAGR of over 12% over the next three years (FY25-FY27), coupled with an improvement in EBITDA margins. This boost in profitability is anticipated to result from the monetization of the online trading platform, which will facilitate back-to-back sugar trades.

Key Rating Sensitivities:

Upward Factors

- Successful monetisation of platforms ‘ebuysugar.com’ and ‘chinimandi.com’ resulting in significant improvement in EBITDA margin.
- Sustained improvement in revenue and profitability while maintaining the debt protection metrics, and improvement in liquidity profile of the company.
- Improvement in capital structure along with sustained improvement in overall gearing to below unity.

Downward Factors

- Any significant decline in revenue and/or profitability leading to deterioration in debt protection metrics.
- Substantial increase in long term debt weakening the capital structure of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced management

The promoters of the company have an experience of 15+ years in the sugar trading business Apart from the knowledge and managerial experience of the promoters, the company benefits from the experienced and qualified team of professionals who are also well versed with the industry.

Growing scale of operations albeit thin profitability

The TOI of the company grew by 4.23% y-o-y basis and stood at Rs. 1312.54 crore as per the FY24(Audited) results compared to Rs. 1259.26 crore during FY23 on account of increase in trading volume of its products. The absolute EBITDA of the company declined by 6.85% and stood at Rs. 4.29 crore during FY24 compared to Rs. 4.61 crore during FY23. The PAT of the company stood at Rs. 4.40 crore during FY24 result compared to Rs. 3.10 crore during FY23. The GCA of the company stood at Rs. 4.48 crore in FY24 compared to Rs. 3.14 crore in FY23. Despite increase in turnover the EBITDA margin of the company declined and stood at 0.33% in FY24 compared to 0.37% in FY23 on account of lower margin earned on traded goods.

However, the PAT margin of the company improved and stood at 0.33% during FY24 and 0.25% FY23.

The company's operating (EBITDA) profits till date are derived entirely from its proprietary trading activity wherein it purchases sugar in bulk and stocks the same for subsequent sale to other traders and consumers. The bulk of its revenues however are derived from matching of buy and sell bids for sugar on its online platform – 'ebuysugar.com'. The company till date has not monetised this platform and does not charge commission on sales booked through the platform. However, as these trades are recognised as revenue, the topline is large in comparison to the operating profits, resulting in low margins.

This business strategy has been adopted to expand the user base for the platform. From FY26, the company plans to charge a nominal commission on the online matching of bids which is expected to boost the EBITDA margin considerably. Additionally, the company could potentially charge a subscription fee for its portal 'chinimandi.com' which provides information about the sugar industry to all stake holders. This could further boost profit margins.

Low risk business model

The company is currently engaged in both conventional stock and sell operations as well as back-to-back trading. Sales in both instances are carried out online. While there is a moderate inventory risk in the stock and sell model, it contributes to a small proportion of overall sales (~20% in FY24).

In case of matching of bids on ebuysugar.com, the business is completely back-to-back, with no risk to the company. The buyer provides the funds upfront into JKSAC's account which is forwarded to the seller after the seller ships the specified quantity of sugar to the buyer This strategy allows the company to capture high volumes of transactions with reduced exposure to traditional trading risks, resulting in a more resilient and profitable business model. On monetisation of the platform from FY26 onwards, the company is expected to generate substantial cash accruals while facing low commodity price risk.

Key Rating Weaknesses

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. Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market. Vulnerability in business due to Government regulations is likely to continue over the medium term. Relying solely on domestic sugar sales is unprofitable for sugar producers due to high procurement costs on account of FRP (fair and remunerative price) of Rs 340 per quintal payable to farmers, and low profit margins with retail prices around Rs 32.5-34/kg, and increased competition. The government also issues quotas on monthly basis to various sugar mills in the country for sale of their sugar stocks.

Exposure to agro-climatic risks and cyclical trends in sugar business

Being an agro-based industry, performance of the company is dependent on the availability of sugarcane crop and its yield, which may get negatively 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.

Low net worth leading to leveraged capital structure

The tangible net worth of the company, although improved, stood low at Rs. 10.07 crore as on March 31, 2024 (FY23: Rs. 2.68 crore) Therefore the capital structure of the company, marked by overall gearing and TOL/TNW, stood leveraged at 3.42 and 3.73 respectively in FY24(FY23:11.41 and 17.33).

Analytical Approach: Standalone Approach

Applicable Criteria:

- Rating Methodology for Trading Companies
- Financial Ratios & Interpretation (Non- Financial Sector)
- Criteria of assigning Rating Outlook.
- Policy on Default Recognition
- Complexity Level of Rated Instruments/Facilities

Liquidity –Adequate

JKSAC has earned gross cash accruals of Rs. 3.14 crore in FY23 and Rs. 4.48 in FY24. Further the company is expected to earn a gross cash accrual in the range of ~Rs. 10 to 17 crores annually over next three years as against NIL repayments. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term.

About the Company

JKSAC is a sugar company located at Dabholkar Corner, Kolhapur. The company is a recently established company specializing in the sugar industry. With experience in agriculture, especially in sugar, the promoters identified challenges faced by farmers and millers due to middlemen. To address these issues, the company launched "Chini Mandi" in 2020 and "ebuysugar.com" in April 2020. Chini Mandi provides information on sugar industry while ebuysugar.com is the online platform for matching of trades.

Financials Standalone

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	1259.26	1312.54
EBITDA	4.61	4.29
PAT	3.09	4.40
Total Debt	30.59	34.42
Tangible Net Worth	2.68	10.07
EBITDA Margin (%)	0.37	0.33
PAT Margin (%)	0.25	0.33
Overall Gearing Ratio (x)	11.41	3.42
Interest Coverage (x)	2.83	1.20

** As per Infomerics Standard*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
Press Release			February 07,2025				
1	Long Term Bank Facilities- Cash Credit	--	25.00	IVR BB+/ Stable	--	--	--
2	Proposed Long Term Bank Facilities- Cash Credit	--	25.00	IVR BB+/ Stable	--	--	--

Name and Contact Details of the Rating Director

Name: Sudarshan Shreenivas

Tel: (022) 62396023

Email: sudarshan.shreenivas@infomerics.com

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.

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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- Cash Credit	--	--	--	25.00	IVR BB+/ Stable
Proposed Long Term Bank Facilities- Cash Credit	--	--	--	25.00	IVR BB+/ Stable

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-JKSugar-feb25.pdf

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable
Annexure 4: List of companies considered for consolidated 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.