Press Release

Jakraya Sugar Limited

February 27, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	137.74 (Reduced from Rs.159.83 crore)	IVR BBB- Under rating watch with negative implications (IVR Triple B Minus Under rating watch with negative implications)	Downgraded and continued under rating watch with negative implications	Simple
Short-Term Bank Facilities	27.00	IVR A3 Under rating watch with negative implications (IVR A Three Under rating watch with negative implications)	Downgraded and continued under rating watch with negative implications	Simple
Total	**164.74 (INR One hundred sixty-four crore and seventy-four lakhs only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The downgrade in the ratings assigned to the bank facilities of Jakraya Sugar Limited (JSL) is on account of moderation in the capital structure due to elevated debt level leading to impairment in debt protection metrics in FY2023. The rating is also constrained due to ongoing capex pertaining to capacity enhancement in the distillery unit which is majorly funded through debt coupled with delay in commence of operations of the CBG (Compressed Biogas) plant. Further, despite the stable business performance in FY2023, the ratings also note the inability of the company to meet the envisaged business performance for FY2023 which was submitted to Infomerics Ratings at the time of last review. Nevertheless, the ratings continue to derive comfort from its long operational track record under experienced promoters supported by its integrated manufacturing unit with favourable plant location. These rating strengths are partially offset by vulnerability of profitability to agro-climatic risks, exposure to regulatory risks, cyclical nature of the sugar business along with working capital-intensive nature of its operation.

Further, the ratings continue to remain under rating watch with negative implications since the potential outcome and the exact implications on the credit risk profile of the company regarding the Ex-Parte Ad-Interim Order Cum Show Cause Notice issued by SEBI against the company for violation of provisions of companies act 1956 regarding issuance and allotment of non-convertible redeemable preference shares (NCRPS) is yet to be decided. Infomerics Ratings will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the said order on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward factors

- Sustained growth in scale of operations with improvement in profitability and consequent improvement in gross cash accruals
- Improvement in the capital structure with overall gearing to remain below 2x and/or improvement in debt protection metrics with ICR (Interest coverage ratio) above 3.5x
- Effective working capital management with improvement in operating cycle leading to improvement in liquidity

Downward Factors

- Significant decline in operating income and profitability leading to deterioration in debt coverage indicators and liquidity profile of the company
- Withdrawal of subordinated unsecured loan of Rs.51.30 crore from promoters and related parties
- Deterioration in overall gearing to over 3x and/or moderation in interest coverage to below 1.5x
- Significant cash outflow leading to stretch in operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters with long operational track record**

The promoters of JSL and the top managerial personnel of the company have longstanding experience of more than three decades in the sugar industry. Long standing presence of the promoters in the industry has helped to build established relationships with both customers and suppliers.

- **Integrated manufacturing unit with favourable plant location**

The company is operating an integrated sugar manufacturing unit located at Watwate village under Solapur district of Maharashtra. The manufacturing unit is strategically located in a sugar rich region which ensures timely availability of raw materials and logistical advantage to the company. The unit has an installed capacity of 3500 TCD (tonnes crushed per day) for sugar crushing, 15MW for co-generation power plant and 120 KLPD (kilo litres per day) distillery for producing Ethanol. Further, the company has set up a 20TPD CBG Plant at is existing unit at Watwate Village, Solapur, Maharashtra which is fully operational from February 2024. Integrated manufacturing unit reduces the impact of seasonal nature of the sugar business to an extent.

- **Stable business performance in FY23**

Total operating income of JSL had witnessed steady y-o-y growth of ~5.51% from Rs. 295.16 crore of FY22 to Rs. 311.42 crore in FY23 on the back of improvement in sales volume and sales realization of ethanol which is the major revenue driver for the company. The EBITDA margin of JSL has improved from 10.73% of FY22 to 12.32% in FY23 due to improved sales realisations and higher absorption of fixed overheads with rise in ethanol capacity utilisation. However, owing to increase in depreciation and finance cost attributable to rise in debt level due to increase in unsubordinated unsecured loans and higher working capital limit utilization, PAT margin moderated to 2.96% in FY23 from 3.29% in FY22. Nevertheless, gross cash accruals of the company have marginally improved from Rs.19.63 crore in FY22 to Rs.20.54 crore in FY23 with increase in profits at absolute level. In 9MFY24, the company has achieved a revenue of Rs.118.73 crore.

Key Rating Weaknesses:

- **Moderation in the capital structure due to elevated debt level with moderate debt protection metrics in FY2023**

The net worth of the company after considering interest free subordinated unsecured loan of Rs.51.30 crore as quasi equity has remained moderate at Rs.96.54 crore as on March 31, 2023. Total debt level of the company elevated in FY23 due to fresh infusion of unsubordinated unsecured loan along with high working capital borrowing as on the account closing date. Consequently, overall gearing moderated from 2.16x as on March 31, 2022 to 2.66x as on March 31, 2023. The leverage ratios are expected to moderate further in the near term in view of debt funded capex pertaining to capacity enhancement in the distillery unit. However, with increase in operational profit, the debt coverage indicators improved with interest coverage ratio at 2.30x in FY23 as against 2.26x in FY22. Total debt to EBITDA and Total debt to GCA remains stretched at 6.69x (5.87x as on March 31, 2022) and 12.51x (9.47x as on March 31, 2022) respectively as on March 31, 2023.

- **Vulnerability of profitability to agro-climatic and exposure to 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. While sugar realisations are mainly market driven, subject to floor price levels, the government fixes the fair and remunerative price (FRP)/ state administered price (SAP) for cane. Thus, any adverse movements in the sugarcane pricing may impact the contribution margins and, hence, the profitability of sugar mills.

- **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 and requirement of higher working capital. The operating cycle of the company remained elongated at 120 days in FY23 (PY:90 days). 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.

- **Project execution and stabilisation risk**

JSL has undertaken a capacity enhancement in its distillery unit from 120KLPD to 200 KLPD under ethanol blending program of Government with a total project cost of Rs. 95 crore which would be funded through a bank term loan of Rs. 65 crore and the balance through a mix of internal accrual, promoter contribution and unsecured loans. The company has incurred Rs.60.80 crore towards the project till February 02, 2024 which was funded through term loan of Rs.32.50 crore, unsecured loans of Rs.21.40 crore and the balance through internal accruals. Currently there is no time or cost overrun in the ongoing project. However, timely completion and execution of the project along with ramping up of operations will remain a key monitoring factor going forward.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Policy on default recognition

Criteria on complexity

Policy on Rating Watch

Liquidity: Adequate

Driven by improved operational performance, gross cash accrual of JSL has witnessed an improvement to Rs.20.54 crore in FY23 against Rs.19.63 crore in FY22 which was sufficient to meet its repayment obligation of Rs.12.32 crore in FY2023. Further, the average utilisation of fund-based limits remained satisfactory at ~51% during the past 12 months ended December 2023 indicating comfortable cushion in its working capital limit. Furthermore, the company expects to generate sufficient level of cash accruals vis-a-vis its debt repayments in the near term. However, any cash outflow pertaining to the recent SEBI order issued against the company may impact the liquidity profile of the company. Moreover, like any other typical sugar mill, the company holds substantial year-end sugar inventory and its liquidation at remunerative pricing remains vital as far as the liquidity position is concerned.

About the Company

Incorporated in May 2007, Maharashtra based the Jakraya Sugar Limited (JSL) is a closely held private limited company promoted by one Jadhav family. The company is engaged in manufacturing sugar along with industrial alcohol and ethanol at Watwate village, of Solapur district. JSL had started the commercial production of its sugar mill back in June 2011 and the Distillery segment was operational from January 2018. JSL has total installed capacity of

3500 Ton Crushing per Day (TCD) and a distillery unit with 120 Kilo litre per day (KLPD) using molasses/sugarcane juice. Along with the production of sugar and ethanol, the company has also set up a 15 MW co-gen power plant.

Financials of Jakraya Sugar Limited (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	295.16	311.42
EBITDA	31.67	38.36
PAT	9.82	9.22
Total Debt	185.96	256.82
Tangible Net worth	34.65	45.24
Adjusted Tangible Net worth	85.95	96.54
EBITDA Margin (%)	10.73	12.32
PAT Margin (%)	3.29	2.96
Overall Gearing Ratio (x)	2.16	2.66
Interest Coverage Ratio (x)	2.26	2.30

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Brickwork ratings vide its press release dated March 20, 2023 has moved the rating under issuer not cooperating due to due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2023-24 (Nov 23, 2023)	Date(s) & Rating(s) assigned in 2022-23 (Dec 27, 2022)	Date(s) & Rating(s) assigned in 2021-22
1.	Term Loan	Long Term	84.94	IVR BBB-; RWNI*	IVR BBB; RWNI*	IVR BBB; Stable	-
2.	GECL	Long Term	17.80	IVR BBB-; RWNI*	IVR BBB; RWNI*	IVR BBB; Stable	-
3.	Cash Credit	Long Term	35.00	IVR BBB-; RWNI*	IVR BBB; RWNI*	IVR BBB; Stable	-
4.	Bill Discounting	Short Term	27.00	IVR A3+; RWNI*	IVR A3+; RWNI*	IVR A3+	-

Rating watch with negative implications

Name and Contact Details of the Rating Analyst:

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: apodder@infomerics.com

About Infomerics Ratings:

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 visit www.infomerics.com.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook

Long Term Fund Based Limits – Term Loan (Indian Overseas Bank)	-	-	March 2026	1.71	IVR BBB-; RWNI
Long Term Fund Based Limits – Term Loan (IREDA)	-	-	March 2031	81.61	IVR BBB-; RWNI
Long Term Fund Based Limits – Term Loan (Union Bank)	-	-	June 2024	1.62	IVR BBB-; RWNI
Long Term Fund Based Limits – GECL (Indian Overseas Bank)	-	-	July 2025	17.80	IVR BBB-; RWNI
Long Term Fund Based Limits – Cash Credit	-	-	-	35.00	IVR BBB-; RWNI
Short Term Fund Based Limits – Bill Discounting	-	-	-	27.00	IVR A3 RWNI

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-JakayaSugar-feb24.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.