Press Release

Satish Sugars Limited

March 18, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Rating	Previous Rating	Rating Action	Complexity Indicator
Long Term Bank Facilities	350.30	IVR BBB/ Stable (IVR Triple B; with Stable Outlook)	IVR BBB/ Stable (IVR Triple B; with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	18.00	IVR A3+ (IVR A Three Plus)	IVR A3+ (IVR A Three Plus)	Reaffirmed	Simple
Total	**368.30**	**Rupees Three Hundred Sixty Eight Crore and Thirty Lakhs Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has reaffirmed long term rating of IVR BBB with a Stable outlook and short-term rating of IVR A3+ for the bank loan facilities of Satish Sugars Limited (SSL).

The rating continues to draw comfort from the established track record of operations and experienced management, integrated business model and diversified revenue stream, locational advantage, increasing scale of operations and profitability margins and comfortable financial risk profile and debt protection metrics. However, these strengths are partially offset by working capital intensive nature of operations, susceptibility to regulatory changes and inherent volatility in sugar prices and agro climatic risks and cyclical trends in the industry.

The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. IVR believes SSL’s will continue to benefit from its operational track record in the business and regular inflow of orders. The company performance has improved in FY2023 as compared to FY2022. For next season sugar production is expected to remain stable y-o-y and export sentiments also look strong in the wake of tight global supply scenario. Further, with government’s push toward boosting ethanol capacities, diversion of sugarcane / sugar juice towards the same has been reducing sugar output and thus rationalizing the sugar inventories in the country. It is believed that the with sugar inventories getting rationalised, demand-supply balance levelling out and considerable increase in ethanol sales, the cash flows of integrated sugar mills is going to enhance.

IVR has principally relied on the consolidated audited financial results of SSL upto 31 March 2023, 10MFY24 unaudited results and projected financials for FY2024, FY2025 and FY2026, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:
Upward Factors

- Substantial improvement in the scale of operations with TOI above Rs. 1400 crore and EBITDA margins
- Improvement in debt protection metrics
- Sustenance of the overall gearing below 1.20x
- Reduction in financial exposure to group/associate company

Downward Factors

- Significant reduction in the scale of operations and profitability margins,
- Deterioration in debt protection metrics and overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Established track record of operations and experienced management:**
  The company commenced its operations in April 2000 and has a successful track record of more than two decades in the existing line of business. Overall activities of SSL are managed by six directors with Mr. Pradeep Kumar Indi being the Chairman cum Director. He has experience of more than 3 decades in the sugar business. He is ably supported by other four directors namely, Mr. Vithal R Parasannavar, Mr. Rahul Jarkiholi, Ms. Shakuntaladevi Jarkiholi and Ms. Priyanka Jarkiholi who have effective experience in existing line of business as well as supported by qualified and well experienced management team.

- **Integrated business model and diversified revenue stream:**
  The company is forward integrated into cogeneration and distillery operations that de-risk its core sugar business to some extent. SSL has two sugar plants situated Belagavi district in Karnataka in with overall running of 10,000 TCD and 7,500 TCD. In sugar segment, the total operating income (TOI) stood at Rs. 720.15 crore in FY2023 as compared to Rs. 786.21 crore in FY2022. The company also increased the production of ethanol which has higher profit margins. The total operating income from Ethanol has increased to Rs. 338.78 crore in FY2023 from Rs. 161.73 crore in FY2022. Apart from sugar operations, SSL has a bagasse-based cogeneration power plant of 31 MW (14.67 MW exportable) capacity and 36 MW (22 MW exportable) respectively at the two sugar

factories. The power produced by the cogeneration plants is utilized for running the own sugar mills and surplus power is exported. During FY2023 the company produced 27 MW and 35.28 MW respectively. The total operating income from power sale stood at Rs. 62.04 crore in FY2023. The operational metrics of all the segments are expected to remain healthy going forward as well.

- **Locational advantage:**
  The company plants have locational advantages ensuring steady availability of cane. The company's plants are located near the sugarcane belts of Karnataka.

- **Increasing scale of operations and profitability margins:**
  During FY2023, TOI of the company increased by 13.66% to Rs. 1182.34 crore in FY2023 from Rs. 1040.24 crore in FY2022 due to increase in power sale, increase in sales volume of Ethanol as well as increase sale from power sale and trading of agricultural commodities. In 10MFY24 the TOI stood at Rs. 933.45 crore. The operating profit and net profit margins have improved to 13.32% and 5.83% respectively in FY2023 from 10.12% and 3.44% respectively in FY2022. Furthermore, going forward the sugar and distillery operations are expected to register growth in FY2024 as well on the back of favorable industry dynamics.

- **Comfortable debt protection metrics and financial risk profile:**
  In terms of the debt coverage indicators, the interest service coverage ratio (ISCR) and the debt service coverage ratio (DSCR) stood at 2.82x and 1.39x in FY2023. The tangible networth improved to Rs. 365.71 crore in FY2023 from Rs. 296.72 crore in FY2022. In 10MFY24 tangible networth stood at Rs. 418.82 crore. The overall gearing remained constant at 1.94x in FY2023.

Key Rating Weaknesses

- **Working capital intensive nature of operations:**
  SSL's operations are working capital intensive in nature, supported largely by bank borrowings. The sugar industry, being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period.

- **Susceptibility to regulatory changes and inherent volatility in sugar prices:**
  The sugar industry is susceptible to movements in sugarcane and sugar prices which results in volatile profitability. While the government policy of FRP/SAP for sugarcane has brought some amount of stability and predictability in input price, open market sugar price remains dependent on the demand-supply scenario. Besides, the government

regulates domestic demand-supply through restrictions on imports and exports, sugar release orders and buffer stock limits. Government interventions will remain a driver for the profitability of sugar mills and continue to be a key rating sensitivity factor.

- **Agro climatic risks and cyclical trends in the industry:**
  The profitability of sugar mills will remain vulnerable to the agro-climatic risks related to cane production. Being an agricultural product, the sugarcane crop is dependent upon weather conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's revenue and profitability.

Analytical Approach: For arriving at the ratings, IVR has analysed SSL's credit profile by considering the consolidated financial statements of the company. IVR has taken a consolidated view of the business and financial profiles of Satish Sugars Limited and its two subsidiaries viz, Belgaum Sugars Private Limited (operational since 2016) and Yaragatti Sugars Private Limited (no operations), collectively referred to as Satish Group because of the commonality of management and business and significant operational and financial linkages between the entities.

Applicable Criteria:

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)
Criteria for Assigning Rating Outlook
Criteria for Consolidation of Companies

Liquidity – Adequate
The company has an adequate liquidity position. There are long-term secured borrowings from banks, amounting to Rs. 365.35 crore, as on 31st March 2023. Against a current portion of long-term debt (CPLTD) of Rs 50.94 crore in FY2023, the company had a cash accrual of Rs. 90.69 crore in FY2023. The company projected to generate cash accruals of Rs. 105.25 crore in FY2024 against a CPLTD of Rs. 70.00 crore. With the adequate expected cash accruals against repayments, the liquidity position will remain adequate.

About the Company

Satish Sugar Limited (SSL) was incorporated in April 2000 under the leadership of Mr. Satish Jarkiholi (Founder) and Mr. Pradeep Kumar Indi (Chairman). It is currently managed by directors namely Mr. Pradeep Kumar Indi (Chairman), Ms. Priyanka Jarkiholi (Managing Director), Mrs. Shakuntala Devi Jarkiholi, Mr. Rahul Jarkiholi and Mr. Vithal R Parasannavar. The company is engaged in manufacturing and sale of sugar, power and ethanol. The company manufacturing plant is located at Gokak Taluk, Belagavi district in Karnataka. The plant has total installed capacity of 10,000 Tons of Cane per Day (TCD) of sugar crushing, 300 KLPD of distillery and 31 Megawatt (MW) of cogenerated power. SSL has two subsidiaries viz, Belgaum Sugars Private Limited (99.97% of shareholding held by SSL) and Yaragatti Sugars Private Limited (97.13% of shareholding held by SSL). Belgaum Sugars Private Limited is engaged in manufacturing and sale of sugar and power. The plant has total installed capacity of 7,500 Tons of Cane per Day (TCD) of sugar crushing and 36 Megawatt (MW) of cogenerated power.

Financials (Consolidated):

(Rs. crore)

For the year ended as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	1040.24	1182.34
EBITDA	105.31	157.46
PAT	36.48	69.00
Total Debt	581.39	708.94
Tangible Networth	296.72	347.34
EBITDA Margin (%)	10.12	13.32
PAT Margin (%)	3.44	5.83
Overall Gearing Ratio (x)	1.96	1.94

Financials (Standalone):

(Rs. crore)

For the year ended as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	771.27	891.92
EBITDA	75.80	117.97
PAT	30.80	61.63
Total Debt	348.21	296.65
Tangible Networth	293.88	355.52
EBITDA Margin (%)	9.83	13.23
PAT Margin (%)	3.92	6.85

Overall Gearing Ratio (x)	1.18	0.83

Status of non-cooperation with previous CRA: It is under ISSUER NOT COOPERATING category with Brickwork Ratings via press release dated 02nd June 2023 due to non-submission of information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Type of Instrument/Facility	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Tenure	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 27 Feb 2023	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	350.30	IVR BBB /Stable	IVR BBB /Stable	-	-
2.	Non-Fund Based	Short Term	18.00	IVR A3+	IVR A3+	-	-

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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 visit www.infomerics.com.

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/WCDL	-	-	-	245.85	IVR BBB/Stable
Term Loan-1			Dec 2024	1.35	IVR BBB/Stable
Term Loan-2			Sep 2026	2.35	IVR BBB/Stable
Term Loan-3			Mar 2030	73.67	IVR BBB/Stable
Term Loan-GECL 1			Jun 2026	21.99	IVR BBB/Stable
Term Loan-GECL 2			Jun 2026	5.09	IVR BBB/Stable
Bank Guarantee	-	-	-	13.00	IVR A3+
Letter of Credit	-	-	-	5.00	IVR A3+

Annexure 2: List of companies considered for consolidated analysis:

S.No	Name of entities	Extent of Consolidation
1	Satish Sugars Limited	100%
2	Belgaum Sugars Private Limited	100%
3	Yaragatti Sugars Private Limited	100%

Annexure 3: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-SatishSugars-mar24.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 Complexity Level of Rated Instruments/Facilities.