Press Release

Shree Datta Shetkari Sahakari Sakhar Karakhana Ltd

March 16, 2022

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity indicator
1	Long Term Bank Facilities	620.78	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
2	Proposed Long Term Bank Facilities	4.22	IVR BBB-; Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
	Total	**625.00 (Rupees six hundred and twenty five crores only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Shree Datta Shetkari Sahakari Sakhar Karakhana Ltd (SDSSSKL) derives comfort from experienced promoters with long track record, integrated nature of operations, power purchase agreement providing long term revenue visibility, government support to the sugar industry, healthy cane crushing operations and improved recovery rates, increased thrust on ethanol production with improvement in performance in FY21 and expected further improvement in performance in FY22. The rating also note financial support from subsidiary through shortfall undertaking**.** However, these rating strengths continues to remain constrained due to its working capital-intensive operations, exposure to vagaries of nature, exposure to risk related to government regulations, leveraged capital structure and cyclical nature of the sugar business.

Key rating sensitivities

Upward Factors

- **Upward Factors**
  - Increase in scale of operation in coming years with improvement in profitability and cash accruals.
  - Improvement in the capital structure with improvement in overall gearing ratio to below 4x and/or improvement in debt protection metrics

Downward Factors

- Decline in profitability due to any company or industry related factors leading to deterioration in debt protection metrics.
- Moderation in the capital structure with decline in overall gearing to over 6x
- Further deterioration in operating cycle impacting the liquidity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long track record

SDSSSKL was established in 1969 and has a long track of operation in Sugar Manufacturing. The operational area extends in two states i.e Maharashtra & Karnataka & comprises of over 115 villages. The company is managed by the promoter Mr. M.V Patil (Managing Director), MR. Janpat Patil (Chairman) & Mr. Sranik Patil (Vice Chairman) have established healthy customer and suppliers' relations over the years.

Integrated nature of operations

SDSSSKL's operations are fully integrated in nature which has led to better absorption of fixed cost and any increase in the raw material cost. SDSSSKL's crushing capacity is 7000 TCD per day, distillery of 60 kilo litters per day (KLPD) and a bagasse-based co-generation plant of 36 mega-watts (MW). The cogeneration and distillery units provide alternate revenue streams and some cushion against cyclicality in sugar business. Furthermore, integrated nature of operations supports overall profitability of SDSSSKL. As a result of the integrated nature of operations the operating margin of the society have ranged between 1.58%- 5.21% over the last three years.

Power Purchase Agreement providing long term revenue visibility.

SDSSSKL has installed a 36 MW co-generation power. The plant is running successfully and about 22-32 MW power is exported to the Maharashtra State Electricity Distribution Company Limited (MSEDCL). SDSSSKL has signed a long-term Power Purchase Agreement (PPA) with MSEDCL for a period of 13 years at the rate of Rs 6.64 per unit. This provides the company with assured long-term revenue for coming years.

Government support to the sugar industry

The company benefits from Government support to the sugar industry in the form of low-cost soft loans and interest subvention schemes, among others, which materially impact the profitability of the domestic sugar industry. The company is likely to continue to benefit from the sugar export subsidy from the Government of India as in the past fiscal.

Healthy cane crushing operations and improved recovery rates

The entity operated for around 148 days in FY2021 and has crushed 11.92 lakh tons of cane. For FY2020 it operated for 135 days and has crushed 10.47 lakh tons of cane. Thus the capacity utilization has consistently remained above 80 percent since FY2020. The healthy crushing levels support the forward integrated operations. Furthermore, as a result of varietal change in the cane, there has been consistent improvement in the recovery rates from 12.10% in FY2020 to 12.49% in FY2021 in the sugar segment of the entity which has also led to enhanced sugar production.

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 favorable Government policies SDSSSKL is undertaking a capacity expansion of its distillery division by another 100 KLPD in FY2023.

Shortfall undertaking from subsidiary

Shree Datta Shetkari Sahakri Sakhar Karkhana Limited has strong financial support based on shortfall undertaking provided from Urjankur Shree Datta Power Company Limited. SDSSSKL is a holding company of USDPCL. USDPCL through its boards resolution undertake to extend financial support to SDSSSKL amounting to Rs.40 crore in case of any shortfall in debt repayments of the company or in case of need.

Improvement in performance in FY21

The financial performance of the company has improved in FY21 marked by improvement in its topline, profitability and debt protection metrics. During FY21, the company has witnessed y-o-y growth in its topline by ~15% backed by rise in sugar realisations and higher demand of sugar. With growth in revenue and rise in sales realisations the profitability of the company has also witnessed steady growth and the company witnessed multifiold growth in its PAT in FY21. Rise in PAT and cash accruals resulted in improvement in the debt protection metrics of the company in FY21. Further, in 10MFY22, the company has achieved a revenue of ~Rs.664 crore backed by high demand of sugar and improvement in sugar realisations

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 327 and requirement of higher working capital. The operating cycle of the company remained elongated at 292 days in FY2021 & is expected increase more in near term.

Exposed to vagaries of nature

Being an agro-based industry, performance of SDSSSKL 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 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 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

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate marked by steady improvement in its revenue in 10MFY22 backed by steady demand of sugar and improvement in sugar realisations. Further, the company is having average cash credit limit utilisations at ~17% in the past 12 months ended December 2021 indicating adequate liquidity buffer. Further, the liquidity is supported by financial support extended by its subsidiary, Urjankur Shree Datta Power Company Limited to the extent of Rs.40 crore.

About the Company

Shree Datta Shetkari Sahakari Sakhar Kharkhana Ltd (SDSSSKL), located at Shirol Taluka of Kolhapur District in Maharashtra State, was registered as a co-operative sugar factory under the Maharashtra Co-operative Societies Act 1960 on 9th June 1969, vide registration no. KPR/PRG/(A)-1. SDSSSKL started its operation with a capacity of 1250 TCD.

In view of surplus availability of sugarcane in the catchment area & to attain the economic viability, the cooperative in the past achieved organic growth in its crushing capacity from 1250 to 2000 TCD in 1980-81, 2000 to 5000 TCD in 1989-90, 5000 to 7000 in 2000- 2001.

Shree Datta Shetkari Sahakari Sakhar Kharkhana Ltd, Shirol is a holding company of Urjankur Shree Datta Power Ltd (USDPL, rated: Acuite A/Stable). The factory is involved in manufacturing of Sugar, Ethanol, Co-generation and Distillery plant. USDPL & SDSSSKL has a Project Development agreement, whereas per the agreement SDSSSKL shall supply its entire production of Bagasse to USDPL at free of cost and USDPL shall supply power & steam free of charge to SDSSSKL for its consumption in the sugar plant.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	462.01	532.56
Total Income	468.57	538.63
EBITDA	24.06	30.54
PAT	0.34	2.18
Total Debt	402.06	467.40
Tangible Net worth	91.54	93.74
EBITDA Margin (%)	5.21	5.73
PAT Margin (%)	0.07	0.40
Overall Gearing Ratio (x)	4.39	4.99

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: CRISIL has moved the rating of SDSSSKL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated December 28, 2021.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	450.00	IVR BBB- / Stable Outlook	-	-	-

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2.	Cash Credit (Proposed)	Long Term	170.78	IVR BBB- / Stable Outlook	-	-	-
3.	Cash Credit (Proposed)	Long Term	4.22	IVR BBB- / Stable Outlook	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Ms. Nidhi Sukhani	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: nsukhani@infomerics.com	Email: apodder@infomerics.com

About Infomerics:

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 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
Long Term Bank Facilities – Cash Credit	-	-	-	450.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan	-	-	May 2027	170.78	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Cash Credit (Proposed)	-	-	-	4.22	IVR BBB- / Stable Outlook

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Shree-Datta-lenders-mar22.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.