



Press Release

Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd

February 08, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	499.00	IVR BBB-/Stable [IVR Triple B Minus with Stable Outlook]	Reaffirmed	Simple
Long Term Bank Facilities	105.62	IVR BBB-/Stable [IVR Triple B Minus with Stable Outlook]	Assigned	Simple
Total	604.62	[Rupees Six hundred and four crore and sixty-two lakhs Only]		

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Ratings and Valuation Private Limited (IVR) has reaffirmed long term rating of IVR BBB- with a Stable outlook for the bank loan facilities of Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd (STK). IVR has assigned long term rating of IVR BBB- with Stable outlook to the enhanced facilities of the company.

The rating continues to draw comfort from long operating history spanning seven decades, favourable geographical set-up, adequate sugar recovery levels, forward integration into distillery operations insulating against cyclical sugar business. The ratings continues to take into account, Government support to sugar industry; fiscal benefits with soft loans, threshold sugar realisations and cane procurement cost, Power Purchase Agreement providing long term revenue visibility, increased thrust on ethanol production , increasing scale of operations along with decline in profitability, moderate capital structure and continuous increase in demand of ethanol. However, these rating strengths are partially offset by working capital intensive operations, exposure to risk related to Government regulations, cyclical nature of the sugar business.



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The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

IVR has principally relied on the consolidated audited financial results of the company up to March 31, 2023, and projected financials for FY2024-FY2026, and publicly available information/ clarifications provided by the company's management.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity or unplanned capex leading to any deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long operating history spanning seven decades, favourable geographical set-up, adequate sugar recovery levels: Incorporated in 1955., Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd (STK) has a long operational history spanning over six decades. Its cooperative set up has close to 22,000 cane producing members which ensures stable cane supply year-on-year. The cooperative's command area is located in Kolhapur district of Maharashtra but being a relatively smaller cooperative society, it can purchase cane from neighbouring states. STK benefits from its presence in the high cane yield and high sugar recovery Kolhapur zone of Maharashtra. Given



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the conducive climate and topography, the cane yields in the company's catchment area historically have been above the state.

Forward integration into distillery operations provides some cushion against cyclical sugar business: The company's sugar operations are forward integrated into distillery operations. While the by-products provide an alternative source of revenue, they also cushion the company's profitability against the inherent cyclicity in the sugar business. In FY23, STK derived 71.40% of its revenues from sugar operations while 28.60% revenues were garnered from ethanol and molasses.

Government support to sugar industry; fiscal benefits with soft loans, threshold sugar realisations and cane procurement cost: The company also benefits from the various fiscal incentives extended by the Government to the domestic sugar industry, which include subsidy for sugar exported, soft loans as well as interest subvention schemes. The Government of India also fixes the threshold cane procurement price annually, while periodically revising the minimum sugar realisations. The Government has also promoted the manufacturing of ethanol from B-molasses against C- molasses mainly by offering it a relatively higher realisation.

Power Purchase Agreement providing long term revenue visibility: Urjankur Shree Tatyasaheb Kore Warana Power Company Limited (Urjankur) (Cogen unit of STK) has installed a 44 MW co-generation power. The plant is running successfully and about ~32 MW power is exported to the Maharashtra State Electricity Distribution Company Limited (MSEDCL). Urjankur has signed a long-term Power Purchase Agreement (PPA) with MSEDCL for a period of 13 years (Since December 2012) at the rate of Rs 7.55 per unit. This provides the company with assured long-term revenue for coming years.

Increased thrust on ethanol production: The Government has been promoting ethanol has and 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



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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 10%. 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 favourable Government policies, STK will be undertaking a capacity expansion of its distillery division.

Increasing Scale of operations along with decline in profitability

TOI of the group has increased significantly by 55.09% and amounts to Rs. 809.24 crore for FY23 majorly on account of increase in sales volume along with sales prices of its key products i.e. sugar, molasses and ethanol. The regulated sugar industry selling quota is decided by the government for the year to regulate demand and supply. Consolidated EBITDA margin for the group deteriorated by 1073 bps and stood at 8.50% for FY23 compared to 19.24% during FY22 mainly on account of decline in profitability of power generation unit. With decline in EBITDA margin, the PAT margin of the group also declined by 291bps and stood at 1.15% during FY23 compared to 4.06% during FY22. The GCA of the group stood at Rs. 27.44 crore during FY23 compared to Rs. 53.14 crore during FY22.

Moderate capital structure and moderate debt coverage indicators:

The TNW (including quasi equity) of the group stood at Rs. 749.05 crore as on March 31, 2023 compared to Rs. 719.97 crore as on March 31, 2022. Amount of Rs. 373.00 crore are considered as quasi equity as per the undertaking submitted by the STK to the banker and acknowledged by the BOB banker. The overall gearing (including quasi equity) stood comfortable at 0.90x as on March 31, 2023, improved from 0.97x as on March 31, 2022 on account of scheduled repayment of term loans. As per the undertaking given to the bankers (Bank of Baroda) by the company dated February 25, 2022, stating that unsecured loan of Rs. 373.00 crore shall not be withdrawn for next 5 years we have considered unsecured loan as quasi equity. Also, all the loans



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of term loan nature will be repaid within the period of 5 years from the day of undertaking. Further, total indebtedness of the group as reflected by TOL/TNW stood at 1.19x as on March 31, 2023, compared to 1.60x as on March 31, 2022. Total debt to GCA stood at 24.46x as on March 31, 2023 deteriorated from 13.18x as on March 31, 2022.

Continuous increase in demand of ethanol along with increase in the prices in the industry

Oil marketing companies (OMCs) have increased the procurement price for ethanol made from C-heavy molasses by ₹6.87 per litre for the 2023-24 supply season that started in November, marking the highest rise in over five years.

B. Key Rating Weaknesses

Working capital intensive operations, cyclicity 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 293 for FY23 and requirement of higher working capital. The operating cycle of the group remained elongated at 362 days in FY23 compared to 509 days in FY22.

Exposed to vagaries of nature: Being an agro-based industry, performance of STK 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.



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Exposure to risk related to government regulations: The Sugar industry is highly exposed to risks related to Government regulations. Various Government Acts virtually govern 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.

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: Consolidated (For arriving at the ratings, Infomerics has analysed STK's credit profile by considering the consolidated financial statements of the company owing to financial linkages between the parent and subsidiaries and common management. The entities considered in the consolidated financial statements are Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Limited and Urjankur Shree Tatyasaheb Kore Warana Power Company Limited).

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria for assigning rating outlook](#)

[Consolidation of Companies](#)



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Liquidity – Adequate

The liquidity position of the company is expected to remain adequate marked by steady revenue backed by steady demand of sugar and improvement in sugar realisations. Further, the company is having average cash credit limit utilisations at ~44% in the past 12 months ended October 2023 indicating adequate liquidity buffer. The company has an unencumbered cash & bank balances of Rs. 3.49 crore as on March 31, 2023. The Current and quick ratio of the group stood at 1.32x and 0.54x respectively as on March 31, 2023. The operating cycle of the group stood elongated at 368 days in FY23 compared to 477 days in FY22 on account of decline in collection days and inventory days.

About the Company

Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Limited (STK) was promoted by Late Mr. Tatyasaheb Kore in September 1955 (founder Chairman). Registered under 'The Maharashtra Co-operative Societies Act, 1960', the company is involved in the manufacture of sugar and allied products. The sugar factory is the flagship company of the Warananagar, Kolhapur based Warana group encompassing co-operative dairy project (Warana Dairy), co-operative poultry farm, co-operative bank, education institutes in Warana Nagar, Kolhapur, Maharashtra. The STK has a subsidiary "Urjankur Shree Tatyasaheb Kore Warana Power Company Limited" (Urjankur) which is a co-generation unit of the company. STK has 66.7% stake in Urjankur.

Financials (Consolidated):

For the year ended* / as on	(Rs. Crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	521.80	809.24
EBITDA	100.37	68.79
PAT	21.58	9.51



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Total Debt	700.15	671.18
Tangible Net Worth (including quasi equity)	719.97	749.05
Ratios		
EBITDA Margin (%)	19.24	8.50
PAT Margin (%)	4.06	1.15
Overall Gearing Ratio (x) (including quasi equity)	0.97	0.90

**Classification as per Infomerics` standards*

Financials (Standalone- STK):

(Rs. Crore)

For the year ended* / as on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	448.72	750.77
EBITDA	50.12	52.79
PAT	0.28	5.40
Total Debt	648.55	604.48
Tangible Net Worth (including quasi equity)	215.38	240.35
Ratios		
EBITDA Margin (%)	11.17	7.03
PAT Margin (%)	0.06	0.71
Overall Gearing Ratio (x)	3.01	2.52

**Classification as per Infomerics` standards*

Status of non-cooperation with previous CRA: Vide press release dated December 21, 2023, India Ratings have kept the ratings under non-cooperation category on account of non-submission of relevant information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (Dec 27, 2022)	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2021-22
1.	Long Term Fund Based Facilities	Long Term	604.62	IVR BBB- / Stable	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 visit www.infomerics.com.

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Annexure 1: Details of Facilities



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Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	-	55.11	IVR BBB-/ Stable
ECGL	-	-	-	55.51	IVR BBB-/ Stable
Cash Credit	-	-	-	494.00	IVR BBB-/ Stable

Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Consolidation Approach
Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd	Full Consolidation
Urjankur Shree Tatyasaheb Kore Warana Power Company Limited	Full Consolidation

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-ShreeTatyasaheb-feb24.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 www.infomerics.com.