# Press Release

## Shri Prabhulingeshwar Sugars & Chemicals Limited

**July 22, 2022**

**Ratings**

| Instrument / Facility | Amount (Rs. crore) | Ratings | Rating Action | Complexity Indicator |
|---|---|---|---|---|
| Long Term Bank Facilities | 167.87 (enhanced from Rs. 73.47 crore) | IVR BB+/ Stable (IVR double B plus with Stable outlook) | Reaffirmed | Simple |
| Long Term /Short Term Bank Facilities | 623.00 (enhanced from Rs. 220.53 crore) | IVR BB+ /Stable/ IVR A4+ (IVR double B plus with Stable outlook and IVR A four plus) | Reaffirmed | Simple |
| **Total** | **790.87 (INR Seven hundred and ninety crore and eighty seven lakhs only)** | | | |

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The ratings assigned to the bank facilities of Shri Prabhulingeshwar Sugars & Chemicals Ltd (SPSCL) consider the common management team and operational & financial linkages between SDL and its group concern, Siddapur Distilleries Limited (SDL). Infomerics has taken a consolidated view of these entities referred together as Siddapur group. The reaffirmation of ratings assigned to the bank facilities of SPSCL continues to derive strength from the extensive experience of the promoters of the Group in sugar industry, increase in topline and profitability in FY22(provisional), efficient operations with forward integration into co-generation and distillery and favourable plant location. The ratings also positively factor in government's measures to support sugar industry. However, these rating strengths remain constrained due to the group's aggressive capital structure, weak debt protection metrics and high working capital intensive nature of operations. The ratings also consider risk related to government regulations, exposure to vagaries of nature and cyclical nature of the sugar business.

**Key Rating Sensitivities:**

**Upward Factors**

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis
- Significant improvement in the capital structure and debt protection metrics
- Effective working capital management with improvement in operating cycle and liquidity

**Downward Factors**

- Decline in operating income and/or moderation in profitability impacting the debt coverage indicators
- Elongation in the operating cycle impacting the liquidity and higher average utilisation in bank borrowings
- Any high debt funded capital expenditure leading to an increase debt level which might lead to deterioration in debt structure and coverage indicators.

**List of Key Rating Drivers with Detailed Description**

**Key Rating Strengths**

- **Experienced promoters**

The Gudagunti family have more than two-decade-long experience in the sugar industry. Long standing presence of the promoter in the industry has helped the group to build established relationships with both customers and suppliers. The group is likely to benefit from the extensive experience of its promoters over the medium term.

- **Increase in topline and profitability in FY22(provisional)**

The group has maintained a stable financial performance over the past years. TOI improved by ~29% y-o-y in FY22 (provisional) to Rs.630.83 crore driven by higher sales volume of sugar, molasses and ethanol. The group posted an EBIDTA margin of 19.30% in FY22 (provisional) up from 17.25% in FY21. Further PAT margin increased to 4.42% in FY22 (provisional) from 1.60% in FY21, due to economies of scale which led to better absorption of fixed costs.

Overall, a sustained and consistent increase in topline and profitability will be a key rating factor going forward.

- **Efficient operations with forward integration into co-generation and distillery**

The group operates 14,500 TCD of sugar capacities in Bagalkot district of North-Karnataka. The group's operation is forward integrated into the power and ethanol businesses — co-generation capacity of 55 megawatt (MW) and distillery capacity of 140 kilolitres per day (KLPD). The integrated operation provides an alternative revenue stream and cushions profitability against the cyclicality in the sugar business. Presently, the group is in the process of expanding its ethanol production capacity by another 70 KLPD. This would also increase the distillery's contribution to the revenues going forward and offset the seasonality associated with the sugar business.

- **Favourable plant location**

The group's plants are located in Bagalkot district of North-Karnataka with easy availability of cane during the season. This enables the group to operate at healthy capacity utilisation. This apart, the successful commissioning of increase in cane crushing capacity to 14500 TCD from 12500 TCD and further enhancement in ethanol production capacity from 140 KLPD to 210 KLPD are expected to drive revenue growth going forward.

- **Government's measure to support sugar industry**

The Government has been supporting the sugar industry by way of various measures such as increasing the MSP, interest subvention loans for ethanol expansion, soft loans for clearing cane dues, export subsidy and creation of sugar buffer stock to improve the demand-supply situation in the domestic market. The CCEA has approved the upward revision in ethanol prices derived from sugarcane-based raw materials from December 01, 2021. The price of ethanol manufactured from C-heavy molasses and from B-heavy molasses has been recently increased to Rs. 46.66 per litre from Rs. 45.69 per litre and to Rs. 59.08 per litre from Rs. 57.61 per litre, respectively.

**Key Rating Weaknesses**

- **Aggressive capital structure, weak debt protection metrics**

The group's overall gearing ratio stood high at 6.51x as on 31 March, 2022 (provisional) against 6.27x as on 31 March, 2021. Its interest coverage ratio stood at 1.61x in FY22 (provisional) (PY: 1.40). Total Debt / GCA ratio was at 16.27 years in FY22 (provisional) (PY: 21.25 years) and Long term Debt to EBITDA stood at 2.00x in FY22 (provisional) as against 2.70x in FY21. Further, TOL/TNW stood at 10.38x as on March 31, 2022 (provisional), compared with 10.49x as on March 31, 2021. An improvement in the capital structure and debt protection metrics will be the key rating factor going forward.

- **High 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 group remained elongated at 208 days in FY22 (provisional) (PY:179 days). The working capital requirements are largely funded by credit period availed and bank borrowings.

- **Exposure to vagaries of nature**

Being an agro-based industry, performance of the group 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. The procurement of sugarcane by the sugar entities is governed by the Sugarcane (Control) Order, 1966, which stipulates that the mills need to source their sugarcane only from the command area allocated to them. The order also makes it mandatory for the sugar mill to necessarily uplift the entire sugarcane production of the farmer, irrespective of the market demand, which has a considerable impact on the inventory holding pattern. In Karnataka 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 considered the combined financials of Siddapur Distilleries Limited (SDL) and Shri Prabhulingeshwar Sugars and Chemicals Ltd (SPSCL) constituting the Siddapur Group considering the same management and strong operational and financial linkages. The list of companies is given in Annexure 2.

**Applicable Criteria:**

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non- Financial Sector)

**Liquidity – Adequate**

The liquidity profile of group is expected to remain adequate with its satisfactory cash accruals vis a- vis its debt repayment obligations during FY23-25. However, the average cash credit utilisation of the group remained high at 96% during the past 12 months ended May 31, 2022, indicating low liquidity cushion. Also the current ratio in FY22 (prov) was 1x and gearing ratio was high at 6.51x as on March 31, 2022 (prov).

**About the Company**

SPSCL was incorporated in May 1995. The company started crushing cane business in 1999 with total production capacity of 2500 TCD. Over the years, the company has increased its cane crushing capacity and presently it stands at 14,500 TCD. Besides, it has co-generation capacity of 55 MW/RTC. The overall affairs of the company are being managed by Shri Jagadeesh S. Gudagunti along with his family members.

**About the Group**

The Siddapur group is promoted by Shri Jagadeesh S. Gudagunti. He possesses extensive industry experience and has also worked as a consultant and machinery supplier for sugar and allied industries. The group started crushing cane business in 1999 with total production capacity of 2500 TCD. Over the years, the group has increased its cane crushing capacity and presently it stands at 14,500 TCD. It is also involved in forward integrated products - power and ethanol. It has co-generation capacity of 55 MW/RTC and distillery capacity of 140 kilo litre per day (KLPD). Its manufacturing facilities are located in Siddapur village of Jamkandi Tq in Bagalkot District, Karnataka.

**Financials (Combined):** **(Rs. crore)**

| For the year ended* / As on | 31-March-21 (Audited) | 31-March-22 (Prov) |
|---|---|---|
| Total Operating Income | 489.17 | 630.83 |
| EBITDA | 84.40 | 121.72 |
| PAT | 7.88 | 27.98 |
| Total Debt | 513.22 | 714.89 |
| Tangible Net-worth (adjusted) | 83.36 | 113.83 |
| EBITDA Margin (%) | 17.25 | 19.30 |
| PAT Margin (%) | 1.60 | 4.42 |
| Overall Gearing Ratio (x) (adjusted) | 6.14 | 6.25 |

***Classification as per Infomerics' standards***

**Financials (Standalone):** **(Rs. crore)**

| For the year ended* / As on | 31-March-21 (Audited) | 31-March-22 (Prov) |
|---|---|---|
| Total Operating Income | 500.35 | 637.81 |
| EBITDA | 74.96 | 101.94 |
| PAT | 5.53 | 26.34 |
| Total Debt | 423.36 | 601.19 |
| Tangible Net-worth | 41.52 | 67.86 |
| EBITDA Margin (%) | 14.98 | 15.98 |
| PAT Margin (%) | 1.10 | 4.11 |
| Overall Gearing Ratio (x) | 10.21 | 8.86 |

******Classification as per Infomerics' standards*

**Status of non-cooperation with previous CRA:**

CARE Ratings continues to maintain the rating of Shri Prabhulingeshwar Sugars & Chemicals Limited in the Issuer Non-Cooperating category as the entity did not cooperate in the rating procedure despite repeated follow ups as per the Press Release dated February 16, 2022.

**Any other information:**

**Rating History for last three years:**

| Sr. No. | Name of Instrument/Facilities | Current Ratings (Year 2022-23) | | | Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|
| | | **Type** | **Amount outstanding (Rs. Crore)** | **Rating** | **Date(s) & Rating(s) assigned in 2021-22** May 5, 2021 | **Date(s) & Rating(s) assigned in 2020-21** | **Date(s) & Rating(s) assigned in 2019-20** |
| 1. | Term Loan | Long Term | 167.87 | IVR BB+/ Stable | IVR BB+/ Stable | - | - |
| 2. | Working Capital | Long Term/Short Term | 623.00 | IVR BB+/ Stable/ IVR A4+ | IVR BB+/ Stable/ IVR A4+ | - | - |

**Name and Contact Details of the Rating Analyst:**

| | |
|---|---|
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| | |
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**About Infomerics Ratings:**

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



**Annexure 1: Details of Facilities**

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|---|---|---|---|---|
| Term Loan 1 | - | - | FY25 | 18.87 | IVR BB+/ Stable |

| | | | | | |
|---|---|---|---|---|---|
| Term Loan 2 | - | - | FY25 | 9.53 | IVR BB+/ Stable |
| Term Loan 3 | - | - | FY28 | 15.00 | IVR BB+/ Stable |
| Term Loan 4 | - | - | FY25 | 8.59 | IVR BB+/ Stable |
| Term Loan 5 | - | - | FY24 | 13.84 | IVR BB+/ Stable |
| Term Loan 6 | - | - | FY33 | 55.00 | IVR BB+/ Stable |
| Term Loan 7 | - | - | FY33 | 45.00 | IVR BB+/ Stable |
| Term Loan 8 | - | - | FY26 | 1.36 | IVR BB+/ Stable |
| Term Loan 9 | - | - | FY27 | 0.68 | IVR BB+/ Stable |
| Working Capital 1 | - | - | - | 60.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 2 | - | - | - | 10.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 3 | - | - | - | 40.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 4 | - | - | - | 8.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 5 | - | - | - | 170.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 6 | - | - | - | 35.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 7 | - | - | - | 30.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 8 | - | - | - | 35.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 9 | - | - | - | 50.00 | IVR BB+/ Stable/ IVR A4+ |
| Working Capital 10 | - | - | - | 35.00 | IVR BB+/ Stable/ IVR A4+ |

| | | | | | |
|---|---|---|---|---|---|
| Working Capital 11 | - | - | - | 150.00 | IVR BB+/ Stable/ IVR A4+ |

**Annexure 2: List of companies considered for consolidated analysis: Not Applicable.**

| Name of the company | Consolidation Approach |
|---|---|
| Siddapur Distilleries Limited (SDL) | Full consolidation |
| Shri Prabhulingeshwar Sugars & Chemicals Ltd (SPSCL) | Full consolidation |

**Annexure 3: Facility wise lender details**

**https://www.infomerics.com/admin/prfiles/Len-Prabhulingeshwar-july22.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