Press Release

Sir Shadi Lal Enterprises Limited

February 7, 2024

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facility	97.76	IVR B+/Stable (IVR Single B Plus with Stable Outlook)	IVR B+/RWDI (IVR Single B Plus with Rating Watch with Developing Implications)	Reaffirmation and Revision in Outlook	Simple
	Total	**97.76**	**Rupees Ninety Seven Crore and Seventy Six Lakhs Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has reaffirmed of the long term rating to the bank facilities of Sir Shadi Lal Enterprises Limited (SSLEL) with revision in outlook. The rating is under rating watch with developing implications due to promoter's stake sale of 25.43% to Triveni Engineering and Industries Limited (TEIL). The share purchase agreement has already been executed on 30.01.2024, however the proceeds from the stake sale is yet to be received. TEIL has also proposed to buy another 26% stake from open market which is yet to be finanalised.

The rating continues to draw comfort from its experienced promoters and management, locational advantage. However, these rating strengths are partially offset by decline in scale of operations, negative tangible net worth with weak debt protection metrics, agro climatic factors, regulatory risks, cyclical nature of the sugar business.

IVR has principally relied on the audited financial results of SSLEL's up to 31 March 2023, projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the company's management.

Upward Factors

- Substantial & sustained improvement in the company's revenue and/or profitability while steady repayment of long-term debt to reduce the leverage and improve/ the capital structure.

Downward Factors

- Any decline in scale of operations and/or profitability leading to sustained deterioration of liquidity and/or debt protection parameters.
- Increase in long-term debt leading to deterioration in capital structure.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management:
The company have established presence in the industry since 1933. The directors are well qualified and have extensive experience in the business. The top management is also experienced and are from diverse backgrounds. The company has also built strong relationships with the customers as well as the suppliers.

Locational advantage:
The manufacturing plant for the company is located in Shamli, Uttar Pradesh. Uttar Pradesh is the leading sugar and sugarcane producing state in India.

Key Rating Weaknesses

Decline in scale of operations:
The total operating income has increased from Rs.469.99 crore in FY2022 to Rs.552.39 crore in FY2023 due to the company has undertaken vigorous cane development activities by encouraging high yielding variety case i.e., Co 15023, Co 118. This has resulted in the improvement in the pol% cane from 12.21% to 12.50%. The recovery in the sugar has found 10.15% as production of C-heavy molasses during the season 2022-23. Absolute EBITDA has decreased from Rs.2.04 crore in FY2022 to Rs. -10.01 crore in FY2023. In terms of percentage, EBITDA margins have also decreased from 0.43% in FY2022 to -1.81% in FY2023. The company has incurred losses in 3 of the last 4 years. The Absolute PAT has decreased from Rs. -16.52 crore in FY2022 to Rs. -29.62 crore in FY2023. With the fall in absolute PAT

from FY2022 to FY2023, the PAT margins have also decreased from -3.51% in FY2022 to -5.36 % in FY2023.

Negative Tangible net worth with weak debt protection metrics:
The company's net worth stood decreased from Rs.-193.84 crore in FY2022 to Rs.-224.40 crore in FY2023 due to accumulated losses with weak capital structure marked by overall gearing and TOL/TNW at -0.39 times and -1.97x respectively as on March 31, 2023. The Interest coverage ratio as well as the Debt service coverage ratio remained weak at -1.10 times and -0.32 times respectively in FY2023.

Agro Climatic factors:
Sugarcane is the key input into the business. Sugarcane is a kharif crop, the production of which depends on good monsoons. Any adversity on the timely and adequacy of rainfall, given the highly uneven pattern of rainfall observed in the past few years, would drastically affect the availability and price of sugarcane, thereby affecting profitability of the business.

Regulatory Risks:
The industry is highly regulated with inability to pass increased costs to buyers and lack of control over input prices. Profitability remains vulnerable to government regulations on input prices, finished goods prices via domestic sale quota, import and export restrictions, pricing of power produced etc. The company is exposed to regulatory risks and commodity price risks due to its nature of operations. Adverse price movement of input raw cane and finished products due to regulatory guidelines without adequate compensation, would impact operating margins of the company and affect its debt servicing capability. Further, payment of cane prices is subject to political guidelines, whereas recovery of sale revenues would be market linked. This is likely to cause liquidity mismatches in the business operations of the company.

Cyclical nature of the sugar business:
The key parameters of the sugar supply in the domestic market for a given sugar season is 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: For arriving at the ratings, IVR has analysed SSLEL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria for rating outlook

Policy for placing ratings on rating watch

Liquidity – Stretched

The company has a Current Ratio of 0.32x as of March 31, 2023. The company fund-based working capital limits remained fully utilised at ~89% during the past 12 months ended May 2023. The company is expected to generate sufficient cash accruals against its debt obligation repayments in projected period. However, in the short term, the company is expected to generate positive cash accruals, but liquidity is marked stretched with insufficient cushion available to meet its debt obligation. The debt obligations are expected to be met through funding support from promoters. The company has cash and cash equivalents amounting to Rs. 3.12 crore as on March 31, 2023. All these factors reflect stretched liquidity position of the company.

About the Company

Sir Shadi Lal Enterprises Limited was established as a Corporate Body in the year 1933 under the name "The Upper Doab Sugar Mills Limited" by the Rt. Hon'ble Sir ShadiLal.
The name of company was changed to Sir Shadilal Enterprises Limited in the year 1982. At present the Company has two manufacturing units comprising of one sugar unit namely Upper Doab Sugar Mills, Shamli, District - Shamli, Uttar Pradesh - 247776 and one distillery unit Shamli Distillery & Chemical Works, Shamli, District - Shamli, Uttar Pradesh – 247776.
The vision of the company is to establish an integrated sugar complex that would include the manufacture of sugar, industrial & potable alcohol, ethanol, co-generation facilities and other related products. The Company is member of the various sugar association, distillery associations and other associations relevant to their operations.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2022	31-03-2023	H1FY2024
	Audited	Audited	Unaudited
Total Operating Income	469.99	552.39	175.49
EBITDA	2.04	-10.01	-9.74
PAT	-16.52	-29.62	-17.38
Total Debt	138.92	88.52	63.93
Tangible Net worth	-193.84	-224.40	272.47
EBITDA Margin (%)	0.43	-1.81	-5.55
PAT Margin (%)	-3.51	-5.36	-9.91
Overall Gearing Ratio (x)	-0.72	-0.39	0.23

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Brickwork and CRISIL vide press release dated January 24, 2024 and May 31, 2023, respectively, has continued to classify the case under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Nil

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	Rating (October 19,2023)	Date(s) & Rating(s) assigned in 2022-23 (September 30, 2022)	Date(s) & Rating(s) assigned in 2021-22 (September 25, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	97.76	IVR B+/RWDI	IVR B+/Stable	IVR B+/Stable	IVR B+/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

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Term Loan	-	-	December 2028	12.42	IVR B+/ Rating watch with developing implications
Long Term Bank Facility – Term Loan – Proposed	-	-	-	27.00	IVR B+/ Rating watch with developing implications
Long Term Bank Facility – Term Loan	-	-	March 2026	7.04	IVR B+/ Rating watch with developing implications

Long Term Bank Facility – Soft Loan	-	-	June 2024	12.00	IVR B+/ Rating watch with developing implications
Long Term Bank Facility – Term Loan	-	-	March 2026	13.30	IVR B+/ Rating watch with developing implications
Long Term Bank Facilities – Cash Credit- Proposed	-	-	-	10.00	IVR B+/ Rating watch with developing implications
Long Term Bank Facilities – Cash Credit	-	-	-	16.00	IVR B+/ Rating watch with developing implications

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

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