



Press Release

Sadguru Sri Sri Sakhar Karkhana Limited (SSSSKL)

July 03, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	60.69	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	Assigned	Simple
Long Term Bank Facilities – Cash Credit	180.00	IVR BB+/ Stable (IVR Double B Plus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities – Short Term Loan	54.00	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Short Term Bank Facilities – Bills Discounting	26.50	IVR A4+ (IVR A Four Plus)	Assigned	Simple
Total	321.19	(Rupees Three Hundred Twenty-One crore and Nineteen lakh only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sadguru Sri Sri Sakhar Karkhana Limited derive strength from integrated operations, experienced promoters, government's initiative to support sugar industry and moderate financial risk profile and debt protection metrics of the company. The ratings strengths are, however, constrained by exposure to vagaries of nature, cyclical nature of sugar business, exposure to risk related to government regulations and working capital intensive nature of operation.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained increase in revenues and profitability leading to improvement in cash accruals and liquidity position.
- Improvement in capital structure.



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Downward Factors

- Any decline in scale of operations and/or profitability leading to sustained deterioration of liquidity and/or debt protection parameters.
- Any un-envisaged incremental debt funded capital expenditure leading to a deterioration in the capital structure and thereby debt protection metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Integrated Operations

SSSSKL's has integrated operations as company is deriving revenue from Sugar, Ethanol and Power, which protects the company from volatility in Sugar Prices. SSSSKL revenue contribution from Ethanol has increased from 17% in FY22 to 27% in FY23 (P); while Sugar contribution has declined to 65% in FY23(P) from 75%.

Experienced Promoters

Sadguru Sri Sri Sakhar Karkhana Limited (SSSSKL) is currently managed by Mr. Seshagiri Rao Narayanarao Narra who is currently the Chairman & Managing Director at SSSSKL and has more than 30 years of experience in managing entire business operations.

The firm under the guidance of promoters has developed healthy customer and suppliers' relations. SSSSKL is also assisted by a team of well-qualified and experienced professionals. The company is likely to benefit from the extensive experience of its promoters and management over the medium term.

Government's initiative to support sugar industry

As GoI has mandated the oil companies to increase blending to 20% by FY25 and increased the prices of Ethanol produced by Sugar companies for Ethanol Selling Year (ESY22-23) by 5% to Rs. 65 per litre. These initiatives by the government will reduce volatility in profits of Sugar companies.

Moderate financial risk profile and debt protection metrics



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SSSSKL's revenue has increased by 52% in FY22 to Rs.388.48 crore (FY21: Rs. 255.84 crore) driven by higher realisation as well as higher volumes from Sugar Segment along with additional revenue from Ethanol Segment. However, revenue has marginally declined in FY23(P) by 1.46% to Rs. 382.78 crore despite higher contribution from Ethanol Segment due to lower realisation from sugar segment. Sugar segment impacted by unseasonal rains during Q3FY23 which has impacted the sugarcane crops leading to lower recovery.

As on 31st March 2023(P) the total Debt comprises of term loans from banks (non-current portion) Rs. 63.06 crore, term loans from banks (current portion) Rs. 21.08 crore, unsecured loans from shareholders & related parties Rs. 21.40 crore (FY22: Rs.4.30 crore) and Short-Term borrowings of Rs. 151.22 crore. The company has also given corporate guarantee to the loans taken by farmers for assured supply of sugarcane. There is no instance of invocation of this corporate guarantee given by the company. The company's capital structure continued to remain comfortable in FY22 with overall gearing and TOL/ Adjusted TNW ratios at 1.63x and 2.15x respectively as on March 31, 2023(P), as against 3.74x and 4.92x respectively as on March 31, 2022. Further the company's interest coverage ratio and Total debt/ GCA ratio stood at 2.00x and 8.08x respectively in FY23(P), as against 2.13x and 7.95x respectively in FY22. DSCR stood at 1.03x in FY23(P) as against 2.21x in FY22.

Key Rating Weaknesses

Exposed to vagaries of nature

Being an agro-based industry, performance of SSSSKL 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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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.

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. Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market.

Working capital intensive nature of operation

The operations of the company are working capital intensive in nature on account of high inventory holding. SSSSKL's operating cycle stood at 199 days in FY23(P) as against 186 days in FY22 which has decreased from 247 days in FY21. As the sugar industry is seasonal in nature and the sugar season starts from September and ends in April and in addition to that sugar is sold according to the tenders received from the government due to which the inventory holding period is always on higher side and leads to higher operating cycle.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria of Rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

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



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Liquidity – Adequate

The liquidity position of the company remains adequate as cash accruals are expected to match tightly with debt repayment obligations. Average working capital utilization for 12 months ended March 2023 stood at 55.34%. The current ratio and quick ratio were at 1.10x and 0.32x in FY23 (P), as against 0.90x and 0.31x respectively as on March 31, 2022. The operations of the company are working capital intensive in nature on account of high inventory holding. SSSSKL's operating cycle stood at 199 days in FY23(P) as against 186 days in FY22. As the sugar industry is seasonal in nature as the sugar season starts from September and ends in April and in addition to that sugar is sold according to the tenders received from the government due to which the inventory holding period is always on higher side and leads to higher operating cycle.

About the Company

SSSSKL was incorporated in 2010 and is currently managed by Mr. Seshagiri Narayanarao Narra who is currently the Chairman & Managing Director at SSSSKL and has more than 35 years of experience in the sugar industry. SSSSKL operates a fully integrated sugar plant with cane crushing capacity of 5500 TCD, cogeneration capacity of 17 MW, and distillery unit of 80 KLPD for producing 90% white plantation sugar, 10% Natural Brown Sugar, cogeneration of power and other allied by products. Additionally, the company has earned goodwill among the farmers and has more than 13000 farmers as registered members and shareholders of the company due to which sugarcane supply is sufficiently available for Sugar and its byproducts manufacturing.

Financials (Standalone):

For the year ended / As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	388.48	382.78
EBITDA	70.55	58.19
PAT	16.74	24.43
Total Debt	317.71	256.76
Tangible Net-Worth	83.90	144.56
<u>Ratios</u>		
EBITDA Margin (%)	18.16	15.20
PAT Margin (%)	4.27	6.34
Overall Gearing Ratio (x)	3.74	1.63



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* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

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	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Term Loan	Long Term	60.69	IVR BB+/Stable	--	--	--
2.	Cash Credit	Long Term	180.00	IVR BB+/Stable	--	--	--
3.	Short Term Loan	Short Term	54.00	IVR A4+	--	--	--
4.	Bills Discounting	Short Term	26.50	IVR A4+	--	--	--

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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).



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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
Term Loan	--	--	--	60.69	IVR BB+/ Stable
Cash Credit	--	--	--	180.00	IVR BB+/ Stable
Short Term Loan	--	--	--	54.00	IVR A4+
Bills Discounting	--	--	--	26.50	IVR A4+



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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-sadguru-jul23.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.

