



## Press Release

**Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Ltd**  
**April 29, 2021**

### Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facility	690.29	IVR B/Stable Outlook (Pronounced as IVR Single B with Stable Outlook)	Assigned
<b>Total</b>	<b>690.29</b> <b>(INR Six Ninety Crore and Twenty Nine Lakhs Only)</b>		

**Details of Facilities are in Annexure 1**

### Detailed Rationale

The assigned rating factors in the extensive track record of the cooperative in the high sugarcane and sugar yield Kolhapur district of Maharashtra. The rating also factors in the forward integration of the sugar operations in the distillery business which not only has provided the necessary cushion against the cyclical sugar operations as also supported the operating margins of the company. The assigned rating also takes into account the fiscal support extended by the Government to sugar mills like fixing threshold realizations for sugarcane and its products, soft loans, export subsidies among others.

The rating, however remains constrained by the declining revenue trend in the past few fiscals on variation in sugar revenues mainly on the restricted sugar sales policy implemented by the Government of India to contain the drop in sugar realizations due to its domestic overproduction as also the high year end debt levels which not only have leveraged the capital structure but kept the coverage metrics under pressure. Also, the cooperative has sizeable debt repayments in the near term, amidst limited accruals, the repayments will be a monitorable. The operating cycle, typical of a sugar mill also remains elongated mainly on stretched sugar inventory, its liquidation at remunerative rates also remains critical as far as the liquidity and the cash flows are concerned. The ratings also remain constrained by the vulnerability of its profitability to sugar realisation as well as cane procurement cost movement, which are impacted by external factors like agro-climatic conditions and regulations with respect to cane pricing and exports. The rating also factors in the intense competitive intensity in the catchment area, given the presence of several sugar mills in the vicinity.



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### Key Rating Sensitivities:

#### Upward Factors

- Increase in scale of operation on a sustained basis.
- Substantial and sustained improvement in debt metrics.
- Equity infusion by the promoters

#### Downward Factors

- Substantial debt funded capex or decline in profitability leading to deterioration in debt protection metrics.
- Elongation of operating cycle resulting in additional borrowings and hence further pressure on the capital structure.

### 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., Warana Sugar has a long operational history spanning over six decades. Its cooperative set up has close to 19,000 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 multistate cooperative society can purchase cane from neighbouring states. Warana Sugar benefits from its presence in the high cane yield and high sugar recovery Kolhapur zone of Maharashtra. Given the conducive climate and topography, the cane yields in the company's catchment area historically have been above the state and national averages while sugar recovery has been above 11%. In SY2020, the company recorded a sugar recovery of 11.71% over 11.36% in SY2019.
- **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



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business. In FY2020, Warana Sugar derived 85.89 % of its revenues from sugar operations while 11.04.% revenues were garnered from ethanol and molasses.

- **Adequate operating margins in past fiscals:** The company has reported adequate operating margins in FY2019 and FY2020 mainly on low cost of production, the company cane purchases in FY2020 had remained on a lower side as compared to the previous fiscal. EBIDTA margins remained at 12.29 % in FY2020 as compared to 11.00 % in FY2019.
- **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.

### Key Rating Weaknesses

- **Declining trend in revenues in past few fiscals, thin net profit margins on relatively high interest outgo:** The company's revenues have demonstrated a considerable volatility in the past mainly due to variation in sugar revenues. While sugar revenues remained at Rs.332.30 crore in FY2020 compared to Rs. 368.01 in FY2019 crore. Sugar realisations have improved to Rs. 30,257 /MT in FY2020 from Rs.29,688 MT in FY2019. The company's sales remained close to Rs.399.75 crore in 11MFY2021 implying limited impact of the pandemic on the company's revenues. The company, though had reported adequate operating margins in the period FY2018 to FY2020 has reported thin net margins owing to high interest charges Net margin remained at 0.02 % in FY2020 vis a vis 0.05 % in FY2019.
- **Sizable repayment obligations in the near to medium term:** In the coming fiscals, the company faces significant debt obligations, given the sizable term borrowings in the past. The repayments remain at Rs.57.53 crore in FY2022, while the same is



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expected to remain at Rs. 20.66 crore in FY2023. Amid limited accruals, servicing the debt obligations will be a key sensitivity, going forward.

- **Leveraged capital structure and weak debt coverage metrics:** The company's capital structure has historically remained leveraged given the high debt levels, which have also led to weak debt protection metrics. Overall gearing has remained at 7.51 times in FY2020 as compared to 8.13 times in FY2019. TD/GCA remained at 11.54 years in FY2020 over 10.01 years in FY2019 while DSCR remained at 0.46 times in FY2020 and FY2019. Maintaining debt levels at manageable levels as well as the recovery of debt protection metrics will be the key monitorable, going forward.
- **Elongated cash conversion cycle profile:** The cash conversion cycle of the company is high at 502 days in FY2020 (468 days in FY2019) due to high inventory days of 397 days (PY 377 days) which is common in sugar industry mainly due to end of the crushing season which falls close to fiscal end.
- **Exposure to agro-climatic risks and cyclical trends in sugar business:** Cane production remains a function of agroclimatic conditions, which ultimately impacts the volumes and realisations of sugar and its by-products. Lower than expected rainfall in the cooperative's catchment area can result in restricted cane availability, thus impacting the crushing volumes for the season.
- **Vulnerability of profitability to volatility in sugar realisations and cane procurement costs:** Typically, the profitability of sugar entities remains driven by sugar realisations and cane procurement costs. Whereas sugar realisations remain mainly market driven, the state governments fix the minimum support price for cane. Any adverse movements in the same impact the contribution margins and, hence, profitability of the sugar mills.

**Analytical Approach:** Standalone

**Applicable Criteria:**



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Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

### **Liquidity – Stretched**

The liquidity profile of the company is stretched as marked by weak current ratio of 0.81x as of March 31, 2020. The company had gross cash accruals of Rs. 8.05 crores in FY2020. Also, it has sizeable maturing debt obligations of Rs. 20.66 crores in FY2022, Rs. 10.47 crore in FY2023 though it has some headroom in working capital given its average working capital utilisation of 38% in 12 months ending February 2021.

### **About the Company**

Shree Tatyasaheb Kore Warana Sahakari Sakhar Karkhana Limited (STKWSSKL) 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 and 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.

### **Financials (Standalone):**

**(Rs. Crore)**

<b>For the year ended*/As on</b>	<b>31-03-2020</b>	<b>31-03-2019</b>
Total Operating Income	491.75	588.90
EBITDA	60.45	64.78
PAT	0.11	0.30
Total Debt	481.31	517.23
Adjusted Tangible Net Worth	64.09	63.62
EBITDA Margin (%)	12.29	11.00
PAT Margin (%)	0.02	0.05
Overall Gearing Ratio (x)	7.51	8.13

\*Classification as per Infomerics' standards

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

**Any other information: NA**



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### Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	191.29	IVR B/Stable	-	--	--
2.	Cash Credit	Long Term	499.00	IVR B/Stable			

**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](http://www.infomerics.com).

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### About Infomerics:

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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
Term Loan	-	-	-	191.29	IVR B/Stable
Cash Credit	-	-	-	499.00	IVR B/Stable

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

**Annexure 3: Facility wise lender details**

<https://www.infomerics.com/admin/prfiles/Shree-tatyasheb-lenders-apr21.pdf>

**Annexure 4: Detailed explanation of covenants of the rated instrument/facilities:** Not Applicable

### Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Facilities	Complexity Indicator
2.	Term Loan	Simple
5.	Cash Credit	Simple

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