



## Press Release

### Vishnu Sugar Mills Limited

July 11, 2023

#### Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long-Term Bank Facilities	122.22	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short-Term Bank Facilities	0.16	IVR A3 (IVR Single A Three)	Assigned	Simple
<b>Total</b>	<b>122.38</b> <b>(INR One hundred twenty-two crore and thirty-eight lakhs only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Vishnu Sugar Mills Limited (VSML) derives strength from its experienced promoter with long track record of operation, improvement in business performance in FY23 coupled with Government's measure to support sugar industry. However, these rating strengths remain partially offset by working capital-intensive nature of its operation leading to leveraged capital structure with moderate debt protection metrics. Further, the ratings also consider the cyclical nature of sugar business along with the vulnerability of profitability to agro-climatic and regulatory risks.

#### 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.
- Improvement in the capital structure with improvement in overall gearing to below 2x and rise in interest coverage ratio to over 3x.
- Improvement in working capital management leading to improvement in operating cycle and liquidity.

##### Downward Factors

- Decline in revenue and profitability leading to deterioration in debt protection metrics on a sustained basis



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- Impairment in the capital structure with moderation in overall gearing to over 4x and interest coverage below 1.5x
- Increase in operating cycle impacting liquidity.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths:

- **Experienced promoters with long track of operations in sugar industry**

VSML was established in 1932 and has a long track of operation of more than eight decades in Sugar Manufacturing. The company is presently managed by Mr. K.K. Bajoria (Managing Director) who has extensive experience and established track record in the sugar industry. The promoters have established healthy customer and suppliers' relations over the years. Further, the promoters are resourceful and have extended support to the company in the form of unsecured loans as and when required in the past.

- **Improvement in business performance in FY23**

The business performance of the company was impacted in FY22 due to heavy damage to sugarcane crop during the year due to unprecedented flood in the vicinity of cane area which is situated in Bihar impacting the production of sugarcane, impacting the sales volume during the year. Due to lower finished stock during FY22, the company booked stagnant revenue during FY23 of Rs.132.34 crore as sugar is a seasonal product and normally sugar companies stock their inventories to sell sugar during the lean period. However, backed with improved cane production coupled with improved cane crushing, FY23 turns out to be better for the company. In FY23, despite stagnant operating income, the EBITDA margin improved and remained satisfactory at 10.34% as against 0.78% in FY22 because of higher accumulation of closing stock during the year. In line with the EBITDA margin, PAT margin of the company has also improved to 2.25% from 0.62% in FY22. Gross cash accruals has also improved to Rs.5.47 crore in FY23 against Rs.2.01 crore in FY22.

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

The Central 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.

#### Key Rating Weaknesses:

- **Vulnerability of profitability to agro-climatic and regulatory risks**



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Being an agro-based industry, the performance of the company 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 monsoon's 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. Further, Government policies related to sugar trade also plays a crucial role for the sugar industry.

- **Leveraged capital structure with moderate debt protection metrics**

Owing to heavy reliance on debt mainly in the form of working capital borrowings along with GECL loans, the capital structure of VSML had remained leveraged over the past three account closing dates. During FY21 and FY22, the company had to borrow GECL loans to support the operations. However, supported by a moderate net worth base of Rs. 38.61 crore as on March 31, 2023, coupled with repayment of GECL loans during the years, overall gearing has marginally improved and stood at 3.14x as on March 31, 2023, against 3.26x as on March 31, 2022. Overall indebtedness marked by TOL/TNW remain moderate at 4.30x as on March 31, 2023, against 3.61x as on March 31, 2022, owing to higher creditor.

- **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, high inventory days of 389 days in FY23 and requirement of higher working capital. The operating cycle of the company remained elongated at 322 days in FY23 (PY:292 days). The working capital requirements are largely funded by credit period availed and bank borrowings.

- **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



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five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria of assigning rating outlook](#)

**Liquidity: Adequate**

The liquidity position of the company is expected to be adequate marked by expected adequate gross cash accruals in the range of ~Rs.10.50-14.28 crore during FY24-FY26 which is expected to be sufficient to meet its debt obligations ranging from ~Rs.10.40 crore-7.80 crore. Further, the average working capital utilization of the company remained satisfactory at ~51% indicating an adequate liquidity buffer. In addition, VSMPL has strong support from the group companies and promoters provide additional liquidity cushion.

**About the Company**

Vishnu Sugar Mills Limited was incorporated in August 1932 and initially the company was promoted by Mr. R. Jhunjhunwala and one Rungta family of Mumbai. Later in 1955, the business was taken over by the current promoters, Mr. Bajoria and his family. The company is engaged in the business of manufacturing of sugar and allied products. The company's manufacturing facility is in Gopalganj District, in the State of Bihar with an installed sugar crushing capacity of 5,000 TCD and 6M of Co-generation power plant which is used for captive consumption.

**Financials of Vishnu Sugar Mills (Standalone):**

For the year ended* / As On	(Rs. crore)	
	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	132.71	132.34
EBITDA	1.04	13.68
PAT	0.89	3.00
Total Debt	113.74	121.39
Tangible Net worth	34.91	38.61
EBITDA Margin (%)	0.78	10.34
PAT Margin (%)	0.62	2.25
Overall Gearing Ratio (x)	3.26	3.14
Interest Coverage	0.12	1.51



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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 Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	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	5.54	IVR BBB-/Stable	-	-	-
2.	GECL	Long Term	21.68	IVR BBB-/Stable	-	-	-
3.	Cash Credit	Long Term	95.00	IVR BBB-/Stable	-	-	-
4.	Bank Guarantee	Short Term	0.16	IVR A3	-	-	-

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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. Cr)	Rating Assigned/ Outlook
Long Term Fund Based Limits –Term Laon	-	-	Dec 2024	5.54	IVR BBB-/ Stable
Long Term Fund Based Limits –GECL	-	-	Jan 2026	21.68	IVR BBB-/ Stable
Long Term Fund Based Limits –Cash Credit	-	-	-	95.00	IVR BBB-/ Stable
Short Term Non Fund Based Limits –Bank Guarantee	-	-	-	0.16	IVR A3

### Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-vishnu-sugar-jul23.pdf>

### Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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