



## Press Release

### Shri Prabhulingeshwar Sugars & Chemicals Limited

May 5, 2021

#### Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities-Term loan	73.47	IVR BB+; Stable (IVR Double B Plus with Stable Outlook)	Assigned
2.	Long Term/Short term Bank Facilities-Working capital	211.73	IVR BB+ ; Stable/ IVR A4+ (IVR Double B Plus with Stable Outlook/IVR A Four Plus)	Assigned
3.	Long Term Bank Facilities- Proposed working capital	8.80	IVR BB+; Stable (IVR Double B Plus with Stable Outlook)	Assigned
	<b>Total</b>	<b>294.00</b> <b>(Rupee Two hundred ninety four crore)</b>		

**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 SPSCL and its group concern, Siddapur Distilleries Ltd (SDL). Infomerics has taken a consolidated view of these entities referred together as Siddapur group. The ratings derive strength from the extensive experience of the Group's promoters in sugar industry, diversified product portfolio 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 leveraged capital structure, weak debt protection metrics and working capital intensive nature of operations. The ratings also consider risk related to government regulations, cyclical nature of the sugar business and exposure to vagaries of nature.

#### **Key Rating Sensitivities**



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### 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 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 to more than 90% on a sustained basis
- Delays in stabilisation of project

### 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.

- **Diversified product portfolio**

The group is involved in manufacturing of sugar with the capacity of 12,000 TCD, with co-generation of 55 MW/RTC of power. Besides, the group is also involved in the manufacturing of ethanol with production capacity of 70 KLPD. Presently, it is in the process of expanding its ethanol production capacity by another 70 KLPD. A diversified product portfolio enables the group to spread its risk and reduces dependency on single/few products.

- **Favourable plant location**



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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 12000 TCD from 8500 TCD and enhancement in ethanol production capacity from 70 KLPD to 140 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 in October 2020 approved the upward revision in ethanol prices derived from sugarcane-based raw materials from December 01, 2020. The price of ethanol manufactured from C-heavy molasses and B-heavy molasses has been recently increased to Rs. 45.69/litre from Rs. 43.75/litre and to Rs. 57.61/litre from Rs. 54.27/litre, respectively.

**Key Rating Weakness:**

- **Leveraged capital structure; weak debt protection metrics**

The group's overall gearing ratio stood high at 6.48x as on 31 March, 2020 against 5.98x as on 31 March, 2019. Its interest coverage ratio stood at 1.36x in FY20. Total Debt / GCA ratio was at 22.52 years in FY20 and Long term Debt to EBITDA stood at 2.62x in FY20 as against 2.03x in FY19. Further, TOL/TNW stood at 10.28x as on March 31, 2020. The group has recently completed major capex of its expansion project. The incremental benefit of the capex is expected to accrue from FY22 onwards.

- **Exposed 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 strictures 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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- **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.

- **Working capital intensiveness**

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 165 days in FY20. 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 five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.



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### **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 Position: Stretched**

Liquidity remains stretched marked by below unity current ratio and high repayment obligations. Besides, it has limited buffer in undrawn working capital limits.

### **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 12,000 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 12,000 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 70 kilo litre per day (KLPD). Its manufacturing facilities are located in Siddapur village of Jamkandi Tq in Bagalkot District, Karnataka.



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### Financials (Combined)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Combined	Combined
Total Operating Income	425.69	434.72
EBITDA	78.21	74.99
PAT	6.26	2.72
Total Debt	406.57	435.96
Tangible Net worth	68.04	67.33
EBITDA Margin (%)	18.37	17.25
PAT Margin (%)	1.47	0.62
Overall Gearing Ratio (x)	5.98	6.48

\*Classification as per Infomerics' standards.

### Financials (Standalone)

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	391.38	434.19
EBITDA	59.31	61.61
PAT	-2.24	-2.25
Total Debt	384.19	402.74
Tangible Net worth	38.25	35.99
EBITDA Margin (%)	15.15	14.19
PAT Margin (%)	-0.57	-0.51
Overall Gearing Ratio (x)	10.05	11.19

\*Classification as per Infomerics' standards.

**Status of non-cooperation with previous CRA:** Care Ratings has moved the rating of Shri Prabhulingeshwar Sugars and Chemicals Ltd into 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 January 14, 2021.

**Any other information:** Nil

**Rating History for last three years:**

Sr. No	Name of Instrument/Facilitie	Current Rating (Year 2021-22)	Rating History for the past 3 years
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	s	Type	Amount (Rs. Crore)	Ratings	Date (s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Long Term Bank Facilities-Term loan	Long term	73.47	IVR BB+/Stable	-	-	-
2.	Long Term/Short term Bank Facilities-Working capital	Long/Short term	211.73	IVR BB+ /Stable/ IVR A4+	-	-	-
3.	Long Term Bank Facilities- Proposed working capital	Long term	8.80	IVR BB+/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:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality



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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 / Outlook
Long Term Bank Facilities-Term loan	-	-	Nov 2024	73.47	IVR BB+/Stable
Long Term/Short term Bank Facilities- Working capital	-	-	-	211.73	IVR BB+ /Stable/ IVR A4+
Long Term Bank Facilities- Proposed working capital				8.80	IVR BB+/Stable
<b>Total</b>				<b>294.00</b>	

### Annexure 2: List of companies considered for consolidated analysis

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