

Press Release

M/s. Kukadi Sahakari Sakhar Karkhana Ltd (KSSKL)

July 22, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1.	Long Term Fund Based Limits - Term Loan	66.13 (*enhanced from Rs. 48.33 crore)	IVR B / Stable Outlook (IVR Single B with Stable Outlook)
	Total	66.13	

**The present outstanding rated amount of Rs. 48.33 crore was rated in July 2019*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating derives strength from diversified customer base & healthy relationship with farmers and improving operational efficiency. The rating however is constrained by volatile operating margins, exposure to risk related to government regulations, susceptibility to adverse weather conditions, high gearing level, weak profitability & debt protection parameters and working capital intensive operations. Timely servicing of debt, Profitability and Capital structure are the key rating sensitivities.

List of key rating drivers with detailed description

Key Rating Strengths

Diversified customer base and healthy relationship with farmers

KSSKL has a diversified customer base as it derives only ~9% of its revenue from its top 10 customers. Further, the company provides various facilities to its farmer members such as help in setting up drip irrigation and seeds and fertilizers at cost. They also provide training to sugarcane farmers to obtain higher yield, thereby improving productivity and increased output available for its sugarcane crushing mill.

Improving operational efficiency

The company was able to achieve total revenue of Rs.186.1 crore in FY19 (provisional) as compared to Rs.152.4 crore in FY18. The company has improved its operational efficiency through improvement in sugar recovery rate to 11.18% in FY19 (provisional). The company is

able to generate additional income through forward integration into cogeneration of power from sugarcane bagasse, a by-product. Around 18% of revenue in FY19 (provisional) was generated from sale of power.

Key Rating Weaknesses

Volatile operating margin and exposure to risk related to government regulations

KSSKL operates in the sugar industry which is exposed to risks related to Government regulations in terms of pricing. This makes its operating profitability susceptible to any policy measure announced by the Government to support sugarcane producers and to keep the sugar prices in check. Vulnerability in business due to Government regulations is likely to continue over the medium term.

Susceptibility to adverse weather conditions

The company's operation is seasonal with maximum business between the months of September to October. The profitability of the company is highly dependent on weather conditions.

High gearing level

The company's capital structure is highly leveraged. The overall gearing was high at 5.07x in FY19 (provisional) as compared to 3.91x in FY18. The long term debt to equity stood at 1.53x, while TOL/TNW stood at 7.15x in FY19 (provisional).

Weak profitability and debt protection parameters

Despite of increase in operating revenue, the PAT margin remained weak at 2.46% in FY19 (provisional) due to increase in cane harvesting & transportation expenses and EBIDTA margin was 22.97% in FY19 (provisional). The debt protection parameters of the Company were also weak with interest coverage of 1.27x and total outside liabilities to tangible net worth of 7.15x in FY19 (provisional).

Working capital intensive operations

Operations of the company are working capital intensive. The operating cycle stood 506 days as inventory days is generally high around 563 days, collection days stood 22 days and creditors days of 80 days in FY19 (provisional).

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for manufacturing companies

Financial Ratios & Interpretation (Non-Financial Sector)

Default Recognition and Post-Default Curing Period

Liquidity

The company's liquidity position has remained stretched over the period of time due to low profitability. The company maintains modest cash balances. Therefore, the liquidity position is expected to remain tight in short term. It is expected to generate modest improvements to its accruals based on the capacity improvement of both its sugar manufacturing facility and its electricity cogeneration plant, which would help in servicing its repayment obligation.

About the Company

Kukadi Sahakari Sakhar Karkhana Ltd., (KSSKL) was incorporated in 2003 and has registered office at Pimpalgaon Pisa village, Ahmednagar. The company is a cooperative society, registered under the Cooperative Societies Act, 1960. Mr. Rahul Jagtap son of late Mr. Kundalikrao Jagtap is the chairman with a decade of experience in sugar industry. He is an elected Member of the Legislative Assembly from Shrigonda in Ahmednagar. The company is engaged in manufacturing of sugar and cogeneration of power. The company has manufacturing capacity of 3500 TCD (Tons of cane per day). The company also generates power from the sugarcane bagasse, with a capacity of 27 MW.

Financials (Standalone)

(Rs. crores)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Provisional)
Total Operating Income	152.4	186.1
EBITDA	40.2	42.7
PAT	0.3	4.6
Total Debt	264.4	369.6
Tangible Networth	67.6	72.8
EBITDA Margin (%)	26.36	22.97
PAT Margin (%)	0.21	2.46
Overall Gearing Ratio (x)	3.91	5.07

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Fund Based Limits	Long Term	66.13	IVR B/ Stable Outlook (IVR Single B with Stable Outlook)	--	--	--

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.

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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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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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 Fund Based Limits	--	--	*Various	66.13	IVR B/ Stable Outlook (IVR Single B with Stable Outlook)

**Repayable latest by April 2027*