

Rating Rationale

Kareli Sugar Mill Private Limited

11 Dec 2018

Brickwork Ratings revises rating to 'BWR BB' for the Bank Loan Facilities of Rs.41.67 Crs of Kareli Sugar Mill Private Limited ('KSMPL' or 'the company')

Particulars

Facility	Amount (Rs. Crs)		Tenure	Rating *	
	Previous	Present #		Previous	Present
Fund Based			Long Term	BWR BB+	BWR BB
Cash Credit	25.00	25.00		<i>(Pronounced BWR Double B Plus)</i>	<i>(Pronounced BWR Double B)</i>
Term Loans	30.34	16.67		(Outlook: Stable)	(Outlook: Stable) Revised
Total	55.34	41.67	Rupees Forty-One Crores and Sixty-Seven Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings

Annexure I shows the bank-wise facilities

Rating Downgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the company upto FY18, projected financials of FY20, publicly available information and information/clarifications provided by the management.

The rating revision has factored the weakening business and financial risk profile of the company. The ratings are constrained by the losses incurred in FY18, decreased tangible networth, weak capital structure & coverage indicators and working capital intensive operations.

Further, susceptibility to regulatory risks, agro-climatic risks, cyclical nature of the sugar industry and the company's non-integrated sugar operations expose the company to volatility in revenue and profitability. The rating, however, continues to draw strength from the promoters' experience in the sugar industry, the proximity of the plants to sugarcane cultivation areas and established relationships with farmers for procurement of sugar.

Going forward, the company's ability to improve operational efficiency and scale of operations, strengthen its overall credit profile and effectively manage its working capital would be the key rating sensitivities.

Rating Outlook: Stable

BWR believes Kareli Sugar Mill Private Limited's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case of favourable supply-demand dynamics and consequently higher sugar prices, which may result in sustained improvement in revenues and profit margins. The rating outlook may be revised to 'Negative' if the sugar prices go down and revenues and margins show lower than expected figures.

Key rating drivers

Experience of promoters in the sugar industry - KSMPL's promoters have over 10 years of experience in the sugar industry. This has helped the company establish strong relationships with cane producers in its command area and its customers.

Established track record - The Company was initially established as Paliwal Sugar Private Limited (PSPL) in 1997 and subsequently renamed as KSMPL in December 2012. The plant capacity was enhanced from 2500 MT to 4500 MT per day in January 2016. The company has crushed 3,27,953 MT sugar cane in 2017-18.

Revenue and profitability: In FY18, the company reported decline in total operating income of Rs.85.69 Crs against total operating income of Rs.113.68 Crs in FY17, due to sugar release mechanism (quota system) and hence the company was not able to sell its sugar when sugar prices increased. KSMPL reported net loss of Rs.4.78 Crs in FY18 against net profit of Rs.4.75 Crs in FY17 mainly because of increased operating expenditure. On a provisional basis, the company reported total revenue of around Rs.46.00 Crs in H1FY19.

Declined tangible net worth and average financial risk profile: The Company's tangible networth declined to Rs.21.70 Crs (PY: Rs. 26.48 Crs) as on March 31, 2018, due to the net loss incurred during the year. Capital structure is leveraged as evidenced by gearing of 2.38 times as

on March 31, 2018. Debt coverage ratio was low at 0.69 times (PY: 1.44 times) as on March 31, 2018.

Working capital and liquidity - The business is working capital intensive in nature and liquidity position is strained with high inventories and payable days. Current Ratio was weak at 0.88 times as on March 31, 2018. The company has to procure cane in 4-6 months of sugarcane production. Additionally, companies have to immediately crush the sugarcane (for maximum recovery of sugar) and hold sugar inventory, which accounts for the bulk of the inventory at the end of the year. The ability of the company to raise additional equity and strengthen its capital structure and liquidity is important for improving its financial risk profile.

Susceptibility to agro-climatic risks, regulatory changes and inherent cyclicality of sugar industry - The profitability of sugar mills remains exposed to agro-climatic risks such as vagaries of monsoon and risks such as an outbreak of diseases related to cane production. The domestic sugar industry is highly regulated because of central and various government policies with respect to sugarcane prices, export and import of sugar, and the sugar release mechanism. Such stringent regulations affect the credit quality of players in the industry. KSMPL will remain exposed to such regulatory risks. The prices and profitability of Indian sugar companies are cyclical and dependent on domestic and international supply-demand trends. This risk is further amplified for the company as it lacks integration into co-generation and distillery

Analytical approach

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

About the Company

Kareli Sugar Mill Private Limited, Kareli (Madhya Pradesh) was established in 1997 as Paliwal Sugar Private Limited and subsequently renamed as KSMPL in 2012. The Company is engaged in manufacturing of sugar and its by-products. The manufacturing plant is located at Narsinghpur district, Madhya Pradesh with an installed capacity of 4500 TCD. Sugar recovery rate was 9.91% in FY18 against 9.69% in FY17. The Company sells sugar to distributors, traders and departmental stores in and around Kareli, KSMPL procures sugarcane directly from farmers and the current dedicated reserve cultivable area for the unit is around 60,000 acres.

Mr. Hemant Kumar Soni, Mr. Manish Kumar Rai, Mr. Rajneesh Singh and Mr. Kishore Biyani are the directors. KSMPL is part of Bhopal based 'Aakriti Group' of companies operating in

diversified verticals including sugar manufacturing activity, real estate development, healthcare, education sector etc.

Financial Performance

KSMPL reported Net Operating Income of Rs. 85.69 Crs and the net loss of Rs.4.78 Crs for FY18 as against Net Operating Income of Rs.113.68 Crs and PAT of Rs. 4.75 Crs for FY17. Tangible Net worth as on 31st March 2018 was Rs.21.70 Crs. Gearing was high with Total Debt/Equity ratio of 2.38 times as on March 31 2018. On a provisional basis, the company has achieved Net Operating Income of around Rs.46.00 Crs for H1Y19.

The key financial indicators are summarized in Annexure II.

Rating History for the last three years:

Sl. No.	Facility	Current Rating (Dec 2018)			Rating History		
		Type	Amount (Rs. Crs)	Rating	20 Jul 2017*	23 May 2016**	31 Mar 2015***
1	Fund Based	Long Term	41.67	BWR BB (Outlook: Stable) (Revised)	BWR BB+ (Outlook: Stable) (Reaffirmed)	BWR BB+ (Outlook: Stable) (Reaffirmed)	BWR BB+ (Outlook: Stable) (Assigned)
Total			41.67	Rupees Forty-One Crores and Sixty-Seven Lakhs Only			

* Rated Amount was Rs. 55.34 Crs; ** Rated Amount was Rs.62.63 Crs

*** Rated Amount was Rs.57.70 Crs

Note - Rating migrated to 'Rating Not Reviewed' category on October 22, 2018.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Hyperlinks/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

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Kareli Sugar Mill Private Limited

Annexure I

Details of the Rated Bank Loan Facilities

Bank	Facility	Amount (Rs. Crs)
Central Bank of India	Cash Credit	25.00
	Term Loan I	2.06
	Term Loan II	8.76
	Term Loan III	0.13
	Term Loan IV	5.72
	Total	41.67

Term Loans Outstanding as on 30 Nov 2018

Kareli Sugar Mill Private Limited
Annexure II
Key Financial Indicators

		31 Mar 2017	31 Mar 2018
		Audited	Audited
Operating Income	Rs. Crs	113.68	85.69
EBITDA	Rs. Crs	21.49	6.42
PAT	Rs. Crs	4.75	(4.78)
Tangible Net Worth	Rs. Crs	26.48	21.70
Total Debt/ TNW	Times	2.27	2.38
Current Ratio	Times	1.07	0.88

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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