



Rating Rationale

12 Jan 2021

Shamanur Sugars Limited

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs. 52.66 Crs. of Shamanur Sugars Limited

Particulars:

Facility**	Amount (Rs. Crs.)		Tenure	Rating*	
	Previous	Present		Previous (02Mar2020)	Present
Fund Based					
Cash Credit	49.93	49.93	Long Term	BWR B+/ Stable	BWR B+/ Stable Reaffirmed
Term Loan (Proposed)	75.65	-			
Non Fund Based					
Letter of Credit (Proposed)	35.27	-	Short Term	BWR A4	BWR A4 Reaffirmed
Bank Guarantee	4.73	2.73			
Total	165.58	52.66	Rupees Fifty Two Crores and Sixty Six Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; **Details of Bank facilities are provided in Annexure-I

Note: Besides the above mentioned facilities, the company has Rs. 84.59 Crs. of fund based loan facilities outstanding as on 31Mar2020, not rated by BWR.

Rating Action/Outlook

The ratings continue to factor the management's experience in the sugar industry, support derived from the Davangere based Shamanur group, integrated operations, proximity of the plant to sugarcane cultivation areas and established relationships with farmers. The ratings continue to be constrained by the average financial risk profile with subdued debt coverage metrics, moderate scale of operations, intensely competitive nature of industry, exposure to agro-climatic risks which impact sugarcane availability and yield and working capital intensive operations. The ratings continue to reflect the exposure to cyclical and regulatory changes in the sugar industry. BWR also notes that the company's deferment of its debt-funded capex, which has been delayed on account of delay in government approval of interest subvention.

Brickwork Ratings (BWR) notes that Shamanur Sugars Limited had availed relief under the Covid-19 moratorium package for March-August 2020 for its Cash Credit facility with Indian Bank. The deferred Cash Credit interest has been converted to FITL by the lender. The company



has been regular in debt obligation payments in the post-moratorium period, as confirmed by the lenders. BWR also notes the company has not applied for one time restructuring (OTR) of loans under RBI Resolution Framework for Covid-19 related Stress.

The **'Stable'** outlook indicates a low likelihood of rating change over the medium term. BWR believes **Shamanur Sugars Limited's** ('SSL' or 'the company') business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in scale of operations on a sustained basis and higher than envisaged profitability result in an improved financial risk profile with better gearing and debt protection metrics. The outlook may be revised to Negative if lower than expected revenue or profitability, a stretch in the working capital cycle, delay in completion of the proposed capex, sizeable, unanticipated capex or weakening gearing impact the financial risk profile.

Key rating drivers

Credit Strengths:

- **Experienced management:** Shamanur Sugars Limited is a part of the Shamanur group of industries, an established business group in Davangere, Karnataka, promoted by Dr. Shamanur Shivashankarappa. The management is well experienced in the sugar industry.
- **Established track record and locational advantages:** SSL has an operational track record of around 20 years. The company operates a sugar plant, cogeneration power plant and one distillery plant. The power generated is for captive use and also supplies to Tata Power Trading Company Ltd. The company's plant is located in Davangere district of Karnataka, which enjoys proximity to the sugarcane belt of Karnataka.
- **Established integrated operations:** The company has an integrated sugar plant with a capacity of 2500 TCD with 60 KPLD distillery and 22 MW cogeneration. The established relationships with farmers ensure steady availability of cane. The fully integrated facility leads to diversification of revenue profile and partially offsets cyclicity in the sugar business. During FY20, capacity utilization of the sugarcane crushing unit was 58.51% (PY: 60.75%) and sugar recovery 4.58% (PY: 7.80%). The company has crushed 2,92,528 MT sugar cane and produced 13,261 MT of sugar in FY20. Also, during FY20, 39.19 million units of power (inclusive of captive consumption of around 14.56 million units) and 24,106 KL ethanol were generated in 2019-20.

Credit Weaknesses:

- **Average financial risk profile:** The company's risk profile is average as reflected by moderate debt coverage metrics, high gearing level, large inventory levels and stretched



liquidity position. Although the company's total operating income improved in FY20 to Rs. 213.18 Crs from Rs. 147.96 Crs in FY19 and PAT improved from Rs. 2.29 Crs. in FY19 to Rs. 3.28 Crs. in FY20, the profitability margins have declined marginally, primarily due to increase in operating expenses. Tangible net worth marginally improved to Rs.73.28 Crs. as on 31Mar2020 from Rs. 70.00 Crs. as on 31Mar 2019. The company continues to be financially leveraged as reflected by the Total debt/Tangible net worth level of 2.53 times. Debt servicing capabilities remained subdued, reflected by ISCR and DSCR of 1.75 times and 1.05 times respectively as on 31Mar2020. BWR also notes the deferment of the debt-funded capex, which has been delayed on account of delay in government's approval of the interest subvention on project loans. The proposed capex when undertaken is expected to exert further pressure on the company's liquidity going forward.

- **Working capital intensive nature of operations:** As is inherent in the sugar industry, SSL's operations are working capital intensive as the company has to procure sugarcane during the harvest season for year round operations. Additionally, the company immediately crushes the sugarcane (for maximum recovery of sugar) and holds sugar inventory, which leads to larger working capital requirements. The company's average utilization of the fund-based working capital facilities remains at around ~60%-70% during non-peak season and ~100% during peak season.
- **Susceptibility to regulatory changes and inherent volatility in sugar prices :** The sugar industry is susceptible to movements in sugar prices which result in volatile profitability. While the input prices are driven by the government, sugar prices are volatile and based on open market prices which are dependent on the production levels. Besides, the government regulates domestic demand-supply through restrictions on imports and exports and stock holdings. Regulatory mechanisms and dependence on monsoon have also rendered the sugar industry cyclical. Government interventions will remain a driver for the profitability of sugar mills and continue as a key rating sensitivity factor.
- **Agro climatic risks and cyclical trends in the industry:** Profitability of sugar mills will remain vulnerable to the agro-climatic risks related to cane production. Being an agricultural product, the sugar cane crop is dependent upon weather conditions. Also, the sugar industry is cyclical, highly fragmented and seasonal. The company is also exposed to geographical concentration risks.

Analytical approach and Applicable Rating Criteria

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale). The company does not have any subsidiary as on 31Mar2020.



Rating sensitivities:

The ability of the company to implement the proposed expansion as planned, optimally utilize its capacities, increase its scale of operations profitably, effectively manage its working capital, manage uncertainty due to regulatory changes, price fluctuations and excessive supply of sugar and improve its overall credit profile would be the key rating sensitivities. Raising additional equity and strengthening its capital structure is important for improving its financial risk profile.

Positive

- Increase in revenue, sustained profitability, and sufficient cash accruals to service debt obligations.
- Improvement in the financial risk profile and liquidity

Negative

- Stretched working capital cycle and weakening of liquidity.
- Deterioration in key credit metrics owing to sustained pressure on revenue, profitability or a sharp rise in inventory levels.
- Disruption in supply chain and production from another wave of Covid-19 pandemic

Liquidity - Stretched: Utilization of working capital remains almost full during the peak season. Cash and Cash Equivalents were modest at Rs.1.15 Crs. provisionally as on 30Sep2020. EBITDA at Rs. 31.87 Crs. for FY20 was sufficient to cover the interest and finance charges of Rs. 18.19 Crs. for FY20. Current ratio at 1.64 times continues to remain adequate primarily on account of higher inventory levels. Although, Cash Conversion Cycle contracted from 281 days as on 31Mar2019 to 222 days as on 31Mar2020, it still remains stretched. BWR believes that SSL's ongoing debt-funded capex will exert some pressure on the company's liquidity and weaken the capital structure going forward. Hence, given the proposed term debt, average utilisation of working capital limits and varying EBITDA/ cash accruals, the liquidity position of the company is considered stretched.

About the Company

Shamanur Sugars Limited was incorporated in May 1995 at Davanagere, Karnataka by Dr. Shamanur Shivashankarappa and started its commercial operations in 1999. The company is engaged in manufacturing and marketing of sugar, power and spirits like rectified spirit, neutral spirit and ethanol. The company's sugar, co-gen and distillery unit is located at Duggavathi, Harapanahalli Taluk, Davanagere District, Karnataka with aggregate installed capacities of 2500 TCD Cane crushing, 22 MW Cogen Power and 60 KLPD of Distillery. The company is undertaking capacity upgrading of the distillery unit by 60 KLPD Distillery Plant (grain/molasses based) along with 3.20 MW cogeneration power plant. The total project cost is estimated to be around Rs. 101 Crs. to be funded by promoters and the proposed bank borrowings in the ratio 25:75. The project implementation has been deferred due to delay in the central government's approval for interest subvention on project loan.



Dr. S S Bakkesh is the Managing Director. Mr. Aashik Bakkesh Shamanur, Mr. Adit Bakkesh Shamanur, Mr. Kenchappa Ravikumar, Mr. T V Sunil Kumar and Mr. I P Ekoramaradya are the directors.

Key Financial Indicators

Parameters		31 Mar 2019 Audited	31 Mar 2020 Audited
Total Operating Income	Rs. Crs	147.96	213.18
EBITDA	Rs. Crs	26.86	31.87
PAT	Rs. Crs	2.39	3.28
Tangible Net Worth (TNW)	Rs. Crs	70.00	73.28
Total Debt/TNW	Times	2.72	2.53
Current Ratio	Times	1.60	1.64

On a provisional basis, the company has reported revenue of ~ Rs. 117 Crs. in 9MFY21.

Key covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA : CARE Ratings has retained the ratings of the bank loan facilities of the company in the ISSUER NOT COOPERATING* category on 29Jul2020 due to continued non- cooperation of the company in the surveillance exercise.

** Issuer did not cooperate; based on best available information*



Rating History For The Previous Three Years [including withdrawal and suspended]

Facility	Current Rating (Jan 2021)			Rating History		
	Amount (Rs. Crs.)	Tenure	Rating	02Mar2020 [^]	2019 ^{^^}	2018
Fund Based						
Cash Credit Term Loan (Proposed)	49.93 -	Long Term	BWR B+/Stable	BWR B+/Stable	Not Rated	27 Dec 2018* BWR B+/Stable 04 Jul 2018** BWR B+/Stable
Non Fund Based						
Letter of Credit (Proposed) Bank Guarantee	- 2.73	Short Term	BWR A4	BWR A4	Not Rated	27 Dec 2018* BWR A4 04 Jul 2018** BWR A4
Total	52.66	Rupees Fifty Two Crores and Sixty Six Lakhs Only				

*Rated amount was Rs. 165.60 Crs. **Rated amount was Rs. 89.95 Crs. [^]Rated amount was Rs. 165.58 Crs. ^{^^}Rating Not Reviewed advisory was issued on 30Dec2019.

Note: BWR assigned the ratings of BWR B+/Stable/A4 for Rs. 89.95 Crs. of bank loan facilities of the company on 04Jul2018.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

<u>General Criteria</u>	<u>Manufacturing Companies</u>
<u>Approach to Financial Ratios</u>	<u>Short Term Debt</u>



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Shamanur Sugars Limited

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Types of facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Cash Credit	49.93	-	49.93
2	Bank Guarantee	-	2.73	2.73
TOTAL - Rupees Fifty Two Crores and Sixty Six Lakhs Only				52.66

Note: Besides the above mentioned facilities, the company has Rs. 84.59 Crs. of fund based loan facilities outstanding as on 31Mar2020, not rated by BWR.

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