

## Rating Rationale

### Shamanur Sugars Limited

4 July 2018

Brickwork Ratings assigns “BWR B+/A4” for the Bank Loan Facilities of Rs.89.95 Crs of Shamanur Sugars Limited (SSL or ‘the company’)

#### Particulars

Facility #	Amount(Rs. Crs)	Tenure	Rating*
<b>Fund Based</b>			<b>BWR B+</b> (pronounced BWR Single B Plus)  <b>Outlook: Stable</b>
Cash Credit	49.95	Long Term	
<b>Non Fund Based</b>			<b>BWR A4</b> (pronounced BWR A Four)
Letter of Credit	38.00	Short Term	
Bank Guarantee	2.00		
<b>Total</b>	<b>89.95</b>	<b>Rupees Eighty Nine Crores and Ninety Five Lakhs only</b>	

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

# Annexure I shows the bank wise facilities

#### Ratings assigned

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the company upto FY17, provisional FY18 financials, projected financials upto FY20, publicly available information and information/clarifications provided by the management.

The ratings draw strength from the experience of the promoters in the in the sugar industry, support derived from the Davangere based Shamanur group, integrated operations and established relationships with farmers. These rating strengths are partially offset by the moderate scale of operations, intensely competitive nature of industry, exposure to agro climatic risks which impact sugarcane availability and yield, working capital intensive operations, vulnerability of the profit margins due to volatility in the raw material cost and cyclical nature of the industry.

Going forward, the ability of the Company to 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.

### **Key rating drivers**

**Promoters' experience** - Shamanur Sugars Limited is a part of the Shamanur group of industries, an established business group in Davangere, promoted by Mr. Shamanur Shivashankarappa. The management is well experienced in the sugar industry.

**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.

**Deteriorated operating income** - The company's scale of operations has been continuously declining due to drought in middle Karnataka region and consequently non availability of sugarcane. This has led to significant reduction in crushing/production. SSL has reported operating income of just Rs.86.20 Crs in FY18(provisional) against Rs.145.92 Crs in FY17 and Rs.223.44 Crs in FY16.

**Below average financial risk profile** - The company's capital structure is moderately leveraged with weak coverage indicators as evidenced by overall gearing of 1.99 times and DSCR of 0.10 times along with reduced net worth. The business is working capital intensive in nature with elongated inventory days. The ability of the company to raise additional equity and strengthen its capital structure is important for improving its financial risk profile.

**Susceptibility to regulatory changes in sugar industry and vulnerability of profitability to agro-climatic risk** : The domestic sugar industry is highly regulated in terms of cane prices, export/import of sugar and the sugar-release mechanism. Consequently, the credit quality of

domestic players continues to hinge on sugarcane price regulations, the export-import policy and Government of India's (GoI's) sugar release mechanism. The sugar industry is cyclical, highly fragmented and seasonal. Profitability of sugar mills remain exposed to the cyclical nature of the sugar industry and agro-climatic risks related to cane production.

### **Analytical approach**

While assigning the ratings, BWR has taken a consolidated view of the business and financial profile of Shamanur Sugars Limited and Indian Cane Power Limited (rated BWR BBB-/A3) referred to as the Shamanur Group, because of the commonality of management and operational linkages. BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale)

### **About the Company**

Shamanur Sugars Limited was incorporated in May 1995 at Davanagere, Karnataka by Mr. Shamanur Shivashankarappa and started its commercial operation 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. During FY18, capacity utilization of the crushing unit was low at 10.30% (PY: 22.34%) and sugar recovery was only 8% (PY:8.02%) due to monsoon deficit in middle Karnataka and subsequently non availability of sugar cane. Company has crushed 51,510 MT sugar cane and produced 4118 MT Sugars in FY18. 27.27 million units of power and 10,348 KL ethanol were generated in 2017-18.

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

### **Financial Performance**

SSL reported Net Operating Income of Rs.145.92 Crs and Net loss of Rs.25.61 Crs for FY17 as against Net Operating Income of Rs.223.24 Crs and Net Profit of Rs.1.22 Crs for FY16. Tangible Net worth as on 31st March 2017 was Rs.78.06 Crs. Gearing was 1.97 times as on March 31 2017 as against 1.44 times as on March 31 2016. On a provisional basis, the company has achieved total operating income of around Rs.86 Crs and Net loss of Rs.10.97 Crs in FY18.

The key financial indicators are summarized in Annexure II

**Rating History for the last three years:**

Sl. No.	Facility	Current Rating (July 2018)			Rating History		
		Type	Amount (Rs. Crs)	Rating	2017	2016	2015
1	Fund Based	Long Term	49.95	BWR B+ (Outlook: Stable) Assigned	-	-	-
2	Non Fund Based	Short Term	40.00	BWR A4 Assigned	-	-	-
	<b>Total</b>		<b>89.95</b>	<b>Rupees Eighty Nine Crores and Ninety Five Lakhs only</b>			

\*Includes undisbursed amount of Rs.22 Crs

**Status of non cooperation with previous CRA:** CARE, vide its press release dated March 01 2018, has migrated its ratings of the bank loan facilities of the company to the Issuer not Cooperating category on account of non availability of requisite information to undertake a review of the ratings.

**Any other information: Not Applicable**

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Manufacturing Companies](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Group Support](#)

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**Annexure I**  
**Bank Facilities Details**

Bank	Facility	Amount Rated (Rs. Crs)
State Bank of India	Cash Credit	24.02
	Letter of Credit	28.00
	Bank Guarantee	2.00
Corporation Bank	Cash Credit	8.22
	Letter of Credit	10.00
Indian Bank	Cash Credit	5.71
Union Bank of India	Cash Credit	5.71
Vijaya Bank	Cash Credit	6.29
<b>Total</b>		<b>89.95</b>

## Annexure II Key Financial Indicators

		<b>31.03.2016 (Audited)</b>	<b>31.03.2017 (Audited)</b>
Operating Income	Rs. Crs	223.44	145.92
EBIDTA	Rs. Crs	32.76	2.43
PAT	Rs. Crs	1.22	(25.61)
Tangible Networkth	Rs. Crs	103.66	78.06
Total Debt/Equity	Times	1.44	1.97
Current Ratio	Times	1.37	1.50

### 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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto: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. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

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