

Deep Sugar Industries LLP

January 10, 2023

Rating

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	30.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Assigned
Total Facilities	30.00 (₹ Thirty Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Deep Sugar Industries LLP (DSI) is primarily constrained by its short track record of operations and stabilization risk associated with debt funded newly setup facility. Further, the rating is also constrained by risk associated with seasonality and agro-climatic risk associated with the sugar industry coupled with cyclical and regulated nature of sugar business.

The rating, however, draws comfort from experienced partners and locational advantage of the firm.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Achievability of scale of operations to around Rs.60.00 crore and above over the medium term on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the capital structure as marked by overall gearing ratio of above 5.00x.
- Deterioration in profitability margins as marked by PBILDT margin below 8.00%.

Detailed description of the key rating drivers

Key Rating Weaknesses

Short track record of operations: The firm has started its commercial operations from November, 2022 and has a relatively short track record of operations in sugar industry as compared with other established players. The first full year of operations will be 2023-2024. Thus, the stabilization of the operations to achieve the envisaged scale of business and saleability risk associated with the products offered in the light of competitive nature of industry remains crucial for DSI. Further, the firm has achieved total operating income of ~Rs.2.50 crore during 1MFY23 (refers to the period from November 1, 2022 to November 30, 2022; based on provisional results) and is expected to achieve total operating income of Rs.41.43 crore in FY23.

Stabilization risk associated with debt funded newly setup facility: DSI has undertaken capex plan with total project cost of ~Rs.25.31 crore for setting up a sugar mill plant at Bahraich, Uttar Pradesh at an installed capacity of 800 metric tonnes of sugarcane crushed per day (TCD). The project is funded through term loan of Rs.15.00 crore and balance through partner's contribution (share capital of Rs. 6.00 crore and unsecured loans of Rs.4.31 crore) of Rs.10.31 crore. The project is almost completed, and firm started its commercial operations from November, 2022. However, post project implementation risk in the form of stabilization and streamlining of operations to achieve the envisaged scale of business and risk associated with the products offered in the light of competitive nature of industry is yet to be seen. During the initial phases of operations, the capital structure of the firm is expected to remain leveraged due to debt funded CAPEX undertaken coupled with high dependence on bank borrowings to meet the working capital requirements.

Seasonality and agro-climatic risk associated with the sugar industry: The profitability of the entities in the entire value chain of sugar industry, is inherently volatile due to its dependence on agro-climatic conditions. Being directly dependent on the sugarcane crop and its yield, sugar industry is susceptible to agro climatic risks including pest & diseases. Climatic conditions, more specifically, the monsoons, temperature and soil conditions, demand-supply dynamics, etc. influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels. Lower output of sugarcane will have an adverse impact on the revenue generation of the entities.

Cyclical and regulated nature of sugar business: The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it is classified as an essential commodity.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE publications

The government (both Union and State) on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus, affect the profitability of the sugar companies. India also continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government.

Key Rating Strengths

Experienced partners of the firm: Mr. Ravindra Kumar Agarwal, Mr. Anand Shekhar Singh, Mr. Krishna Mohan Goel, Mr. Ashok Kumar Madeshia and Mr. Jainkar Singh are the partners of the firm and they collectively look after the overall operations of the firm. Mr. Ravindra Kumar Agarwal holds extensive experience of nearly four decades in agri-commodities and hospitality business through family run business. Mr. Anand Shekhar Singh, is post graduate by qualification and holds vast experience of nearly two decades in diversified industry such as education and healthcare through family run business and associate concern. They are ably supported by other partners of the firm namely; Mr. Krishna Mohan Goel, Mr. Ashok Kumar Madeshia and Mr. Jainkar Singh in managing day-to-day operations of the firm and holds experience of more than three decades in running brick kiln unit. The partners have adequate acumen about various aspects of running of business which is likely to benefit the firm in the long run.

Locational advantage: The manufacturing facilities of the firm is situated in Bahraich, Uttar Pradesh which is the largest producer of sugarcane in India. DSI derives the comfort from its strategic location in terms of easy accessibility to a large customer base as well as availability of raw materials owing to established suppliers' presence in the same location as well. Also, the region has moderate recovery rate on account of favourable climatic conditions for growing sugarcane. Sustained availability of sugarcane for crushing remains vital for sugar production.

Liquidity: Stretched

The liquidity position of the firm remained stretched characterized by tightly matched accruals vis-à-vis repayment obligations. Post project implementation risk in the form of stabilization and streamlining of operations to achieve the envisage scale of business and risk associated with the products offered in the light of competitive nature of industry is yet to be seen. The firm is expected to generate envisage GCA of Rs.3.61 crore for FY23 against repayment obligations of Rs.0.34 crore in same year. Further, the firm has low free cash & bank balances which stood at Rs.0.06 crore as on March 31, 2022.

Analytical approach: Standalone

Applicable Criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

[Project stage companies](#)

[Sugar](#)

About the Firm

Deep Sugar Industries LLP (DSI) was established in October, 2020 as a limited liability partnership firm and started its commercial operations from November, 2022. The firm is currently being managed by Mr. Anand Shekhar Singh, Mr. Krishna Mohan Goel, Mr. Ravindra Kumar Agarwal, Mr. Ashok Kumar Madeshia and Mr. Jainkar Singh sharing profits and losses in the ratio of 20% respectively. The firm was established with an aim for setting up a sugar mill plant at an installed capacity of 800 metric tonnes of sugarcane crushed per day (TCD). The firm will sell sugar and its by-products i.e., Molasses, bagasse, press mud to different wholesalers located domestically under its own brand name "DSI" and will procure the sugarcane from local farmers.

The firm is having six associate concerns namely; "M/s Revti Ent Udyog" (established in 1990), operates as a brick kiln unit, "M/s Shyam Ent Udyog" (established in 1990), operates as a brick kiln unit, "M/s Ashok Ent Udyog" (established in 1990), operates as a brick kiln unit, "M/s Saligram Mannilal" (established in 1980) operates as a pulse mill, "M/s Shubham Hotel" (established in 1990), engaged in hospitality business and "M/s Babu Sundar Singh Foundation" (established in 2007), operates as an educational college.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23*
Total operating income	0.00	0.00	NA
PBILD	0.00	0.00	NA
PAT	0.00	0.00	NA
Overall gearing (times)	2.15	3.34	NA
Interest coverage (times)	0.00	0.00	NA

A: Audited; NA: Not Available

*refers to the period from April 1, 2022 to December 31, 2022.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this firm: Annexure- 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	2.50	CARE B+; Stable
Fund-based - LT-Proposed fund based limits		-	-	-	12.50	CARE B+; Stable
Fund-based - LT-Term Loan		-	-	November, 2030	15.00	CARE B+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	15.00	CARE B+; Stable				
2	Fund-based - LT-Cash Credit	LT	2.50	CARE B+; Stable				
3	Fund-based - LT-Proposed fund based limits	LT	12.50	CARE B+; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Proposed fund based limits	Simple
3	Fund-based - LT-Term Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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