

Krantiagrani Dr. G. D. Bapu Lad Sahakari Sakhar Karkhana Limited

March 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	100.00 (Reduced from 350.00)	CARE B; Stable	Revised from CARE B-; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Krantiagrani Dr. G. D. Bapu Lad Sahakari Sakhar Karkhana Limited factors in the improvement in scale of operations and profitability during FY23.

The ratings continue to be constrained by thin and fluctuating profitability margins and moderately leveraged capital structure and weak debt coverage indicators. The rating further continues to be constrained by working capital intensive nature of operations leading to stretched liquidity and seasonal, cyclical nature of the sugar industry and inherent to agro-climatic risk.

The above constraints however continue to be offset by strength derived from long and established track record of KBSSKL in the sugar industry, partially integrated business model of sugar mill resulting in de-risking of the core sugar business to a certain extent, strategic location of the sugar factory in the area of high recovery of sugarcane and healthy scale of operations.

The rating also takes cognizance of company keeping its large debt funded project on hold.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in PBILDT margins of more than 12% on a sustained basis.
- Improvement in gearing level below 1.5x on a sustained basis.
- Timely repayment of debt obligations maintaining DSCR above unity.

Negative factors

- Decline in revenue/operating profit beyond 20% leading to deterioration in liquidity.
- Adverse changes in government policies affecting the operations and cash flow of the company.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the entity will continue to benefit from its long track record of operations with experienced management.

Detailed description of the key rating drivers:

Key weaknesses

Cyclical and regulated nature of the industry

The sugar industry is cyclical by nature and is vulnerable to the government policies for various factors like its importance in the Wholesale Price Index (WPI) as sugar is classified as an essential commodity. The government resorts to various regulations like fixing the raw material (sugarcane) 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. Thus, the company's performance can be impacted by disproportionate increase in cane price in any particular year. Furthermore, the profitability remains vulnerable to the government's policies on exports, MSP and remunerative ethanol prices. In addition, the cyclical nature in sugar production results in volatility in sugar prices.

Inherent to agro-climatic risk

The sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro climatic risks including pest and diseases. Climatic conditions, more specifically, the monsoons influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels.

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

Thin and fluctuating profitability margins

The operating margins of KBSSKL remained fluctuating during the period of FY19-23 in the range of 1%-9% mainly due to high volatility in raw material prices. In FY23, the PBILDT margin improved to 4.49% from 2.95% in FY22 due to improvement in the scale of operations. The PAT margins improved marginally but remained low at around 0.11% (vis-à-vis 0.08% in FY22) due to decrease in interest cost. KBSSKL, being a co-operative society has relatively lower profit margin compared to other private sugar factory, as it distributes the surplus profit by way of incremental sugarcane payment.

Moderately leveraged capital structure and weak debt coverage indicators

KBSSKL's capital structure remained moderately leveraged in past (FY18-21) with gearing level in the range of 2.00x to 2.98x owing to higher reliance on debt to fund its business operation coupled with moderate net worth base. The same has deteriorated marginally to 2.17x as on March 31, 2023 (vis-à-vis 2.00x as on March 31, 2022) owing to increase in debt levels for its expansion plans.

The debt coverage indicators improved but remained weak during FY23 as indicated by an interest coverage ratio of 0.77x in FY22, however, the same improved to 1.92x in FY23, due to improvement in PBILDT level. The total debt to GCA, however, deteriorated to 15.20x in FY23 from 13.92x in FY22 due to increase in debt levels. The debt servicing is done through recovery from inventory.

Working capital intensive nature of operations

KBSSKL's operations remain working capital intensive mainly on account of funds being blocked in inventory. KBSSKL's operating cycle improved to 133 days in FY23 as compared to 176 days in FY22, owing to improvement in inventory period. The production of sugar in India is highly seasonal in nature, with more than 80% of the sugar being produced during the period of November-April and sold in a staggered manner over the year. The inventory period improved but remained high at 135 days in FY23 vis-à-vis 181 days in FY22 as company needs to hold inventory longer due to the nature of business.

Project funding and execution risk; however, deferment of plan to ease pressure on its leverage in the near term

KBSSKL had planned to set up a new distillery for production of 150 Kilo Liter Per Day (KLPD) anhydrous alcohol or ethanol from molasses at Kundal, Taluka Palus, Dist. Sangli, Maharashtra at an estimated total cost of Rs.172 crore funded out of Rs.163 crore of term loan. However, the Capex plan has been put on hold due to the decision of banning the production of ethanol from sugarcane juice by GOI. The Capex is on hold until further decision and long-term clarification from the government.

Key strengths**Long track record of operations with experienced management.**

KBSSKL is a co-operative society promoted by Late. Krantiagrani Dr. G.D. Lad to undertake the manufacturing of sugar and related production. Mr. G.D. Lad was a social activist and ex. Member of Legislative Assembly (MLA) from Tasgaon constituency. Currently, the society is spearheaded by Mr. Arun Lad, son of Mr. G.D. Lad, who has an experience of over 3 decades in the sugar industry and is a leader of Nationalist Congress Party and a member of Maharashtra Legislative Council from Pune. Mr. Lad is ably supported by Mr. Vijay S. Patil, who has an industry experience of nearly 3 decades. Lad family has a good reputation among the local populace which helps KBSSKL in maintaining cordial relationship and enables adequate cane availability for cane crushing. The top management of KBSSKL is ably supported by second tier management, including a qualified and experienced team of engineers, chemists and finance professionals to manage day-to-day operations.

Partially integrated scale of operations resulting in de-risking of core sugar business

KBSSKL, with an installed capacity of 7500 TCD and 19.70 MW is relatively an average size player in the sugar industry. The partially integrated nature of facility of KBSSKL enables diversification of revenue stream and improves KBSSKL's ability to absorb the fluctuations in the prices of raw material (sugarcane), finished goods and cyclicity, inherent to the sugar industry.

Location advantage with adequate cane availability

The partially integrated sugar plant of KBSSKL is located in the sugarcane cultivation area in village Kundal, Taluka Palus, Sangli, Maharashtra. The registered sugar cultivation land around Sangli covers area of about 14,000 hectares, translating into availability of nearly 14 lakh MT of sugarcane (with an average yield of 100 MT/hectare). The major sugar factories in the vicinity include, Rajarambapu Sahakari SSK Limited (7000 TCD) and Sonhira SSK Limited (5000 TCD). The district is located adjacent to Andhali dam, water from which is distributed to the agriculture lands and industries in the region with the Krishna and Yerla rivers facilitating adequate irrigation. The area has sugarcane with an average recovery rate of close to 12.56% on account of favourable climatic conditions. Further KBSSKL's promoters have good reputation among local farmers and enjoy a cordial relationship, which facilitates society's cane procurement.

Healthy scale of operations; Albeit substantial decline in TOI in 11MFY24

The scale of operation of KBSSKL have reflected a growing trend since FY19-23 due to growing demand by addition of new customers. KBSSKL's total operating income increased by 18.59% on Y-o-Y basis from Rs. 581.39 crore in FY22 to Rs. 689.49 crore in FY23 on account of increased demand for the products in both domestic and export market. KBSSKL caters to the export demand through middlemen. However, KBSSKL has booked sales of Rs. 337 crores during 11MFY24 (Only including Sugar, molasses, bagasse and ENA sales) and is estimated to report TOI of Rs.500 crore in FY24. The decrease in the sales is due to ban on exports of sugar in FY24.

Liquidity: Poor

The liquidity position continues to remain poor marked by the gross cash accruals of Rs. 15.68 crores vis-à-vis repayment obligations of Rs. 30.85 crores in FY24 and free cash balance of Rs. 6.42 crore as on March 31, 2023. The average utilization of working capital limits (fund based) stood at around 80% for the last twelve months ended February 2024. Further, the current ratio and quick ratio stood at 0.95 times and 0.27 times respectively as on March 31, 2023, vis-à-vis 1.09 times and 0.24 times respectively as on March 31, 2022. Cash flow from operations stood positive at Rs. 98.06 crore as in FY23 (vis-à-vis Rs. 92.18 crore in FY22).

Environment, social, and governance (ESG) risks: Not Applicable

Applicable criteria

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Sugar](#)

[Financial Ratios – Non financial Sector](#)

About the company and industry**Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

KBSSKL was incorporated in the year 1997 by Late. Mr. Krantiagrani Dr. G.D. Lad to undertake the manufacturing of sugar and related products. The first crushing season of factory was conducted in the year 2003 with an installed capacity of 2,500 tonnes of cane crushed per day (TCD). The crushing capacity was subsequently enhanced in stages, with the capacity as on February 28, 2023, at 7500 TCD. KBSSKL also commissioned a bagasse fired cogeneration unit with an installed capacity of 19.70 mega-watts (MW). The partially integrated sugar plant of KBSSKL is located at Village Kundal in Sangli, Maharashtra. Presently the society is spearheaded by Mr. Arun Lad (Chairman), son of Mr. G.D. Bapu Lad and Mr. Chandrakant Gavhane (Managing Director).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	581.39	689.49
PBILDT	17.13	30.98
PAT	0.48	0.73
Overall gearing (times)	2.00	2.17
Interest coverage (times)	0.77	1.92

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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-Proposed fund based limits		-	-	-	28.37	CARE B; Stable
Fund-based - LT-Term Loan		-	-	March 2028	71.63	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 2023-2024	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
1	Fund-based - LT-Term Loan	LT	71.63	CARE B; Stable	1)CARE B-; Stable (07-Apr-23)	1)CARE B-; Stable; ISSUER NOT COOPERATING* (17-Nov-22)	1)CARE B-; Stable; ISSUER NOT COOPERATING* (09-Sep-21)	1)CARE B; Stable; ISSUER NOT COOPERATING* (05-Aug-20)
2	Fund-based - LT-Proposed fund based limits	LT	28.37	CARE B; Stable	1)CARE B-; Stable (07-Apr-23)	-	-	-

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

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

Contact us

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About us:

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