

Shree Halasidhanath Sahakari Sakhar Karkhana Limited (Revised)

September 26, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|---------------------------|------------------|---------------------|--------------------------------|
| Long Term Bank Facilities | 145.00 | CARE C; Stable | Downgraded 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 Shree Halasidhanath Sahakari Sakhar Karkhana Limited (SHSSKL) takes into account the instances of penal charges observed in the term loan statements. However, the cash credit limits rated by CARE Ratings Limited (CARE Ratings) had no instances of delays or overdrawals.

The rating continues to be constrained by the leveraged capital structure, weak debt coverage indicators, working capital-intensive nature of operations, and the cyclical and highly regulated nature of the sugar industry. These rating weaknesses are partially offset by SHSSKL's recent foray into ethanol division and the established track record of the management.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Delay free track in repayment of all facilities on sustained basis.
- Revenue of more than Rs. 400 Cr with a PBILDT margin of more than 15%.

Negative factors

- Decline in revenue below Rs. 150 Cr.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the SPRM will continue to sustain its scale of operation aided by long standing experience of its promoters in the business.

Detailed description of key rating drivers:

Key weaknesses

Instances of penal charges observed in the TL statements

As per the TL statement for the period April 01, 2023, to March 31, 2024, penal charges were observed due to delay in debt repayment. However, the CC limits being rated by CARE Ratings had no instances of delay or overdraw.

Leveraged capital structure and weak coverage indicators

Weak capital structure is marked by substantially high debt levels and negative net worth on account of losses reported year on year. As on March 31, 2019, the society's net worth was 5.38 crore which eroded to negative Rs. 140.96 Cr as on March 31, 2024. The interest coverage ratio as of Mar 31, 2024, was below unity at 0.73x (PY: 0.61).

Working capital intensive nature of operations

The crushing happens for less than 4 months due to seasonality of sugarcane production and the factories maintain inventory of finished goods for the rest of the year. The society has an elongated inventory holding period of 344 days and an operating cycle of 353 days as of March 31, 2024. Such long inventory cycle is being funded by working capital borrowing with the average utilisation for the 12-month period ended June 2024 being 77.51%. SHSSKL's current ratio stood at 0.39x as on March 31, 2024.

Cyclical and highly regulated industry

The entire value chain of sugar industry is subject to control of the Government. Sugarcane, the key raw material, prices of which is regulated by government and also determined by volatility of market, makes the profitability of sugar industries susceptible. Both the raw material prices and distribution of end product (sugar) are regulated by the government. In addition to this, sale and distribution of by-products (molasses and power) also regulated at different levels in different States. Sugar industry is also impacted by vagaries of monsoon and prevailing agro climatic condition. Integrated players are in a better position to counter

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

cyclicality of the sugar business. Further, cyclical nature of the sugar industry significantly impacts the operating performance and cash flow generation of the sugar companies.

Key strengths

Satisfactory operational performance

SHSSKL recently improved its capacity to 8,500 TCD for sugar, distillery capacity of 150 KLPD and co-generation of 15 MW. It has also reached an agreement with BPCL for the sale of ethanol valid for ESY 23-24 to ESY 24-25.

Liquidity: Poor

Liquidity is poor, marked by weak current ratio, low quick ratio, moderately high utilization of its working capital limits and moderate cash accruals against high debt repayments resulting in reliance on promoters' funds (call deposits) for debt repayment. Its bank limits of Rs. 145 crore were utilised at around 78% during the last 12 months ending June 2024. It maintains a very high level of inventory. Gross current asset days were very high at 401 days on an average basis. Such a long inventory cycle is being funded by working capital borrowing.

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

| Macroeconomic indicator | Sector | Industry | Basic industry |
|----------------------------|----------------------------|------------------------------------|----------------|
| Fast Moving Consumer Goods | Fast Moving Consumer Goods | Agricultural Food & other Products | Sugar |

SHSSKL is a co-operative sugar society set up in 1987 under Karnataka Co-operative Society Act 1956. SHSSKL is engaged in the crushing of sugarcane and has a mill located at Nipani Taluk in Belgaum dist, Karnataka. It has recently taken expansion and the current capacity stands at 8,500 TCD for sugar, distillery capacity of 150 KLPD and co-generation of 15 MW.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | Q1FY25 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income | 259.51 | 267.87 | 65.61 |
| PBILDT | 29.11 | 37.77 | - |
| PAT | -10.48 | -25.38 | - |
| Overall gearing (times) | -7.26 | -6.50 | - |
| Interest coverage (times) | 0.61 | 0.73 | - |

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: CRISIL and Acuite has conducted the review on the basis of best available information and has classified SHSSKL as "Issuer Not Cooperating" vide its press release dated October 30, 2023, and December 07, 2023, respectively, due to inadequate information provided by the firm.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance | Coupon Rate (%) | Maturity Date | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|--|------|------------------|-----------------|---------------|-----------------------------|------------------------------------|
| Fund-based - LT-Working Capital Limits | - | - | - | - | 145.00 | CARE C; Stable |

Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Fund-based - LT-Working Capital Limits | LT | 145.00 | CARE C; Stable | - | 1)CARE B; Stable (03-Nov-23) | 1)CARE B-; Stable; ISSUER NOT COOPERATING* (07-Dec-22) | 1)CARE B-; Stable; ISSUER NOT COOPERATING* (28-Sep-21) |

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

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|--|------------------|
| 1 | Fund-based - LT-Working Capital Limits | Simple |

Annexure-5: Lender details

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

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

Contact us

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About us:

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