

The Ravalgaon Sugar Farms Limited

May 02, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	6.76	CARE B+; Stable (Single B Plus; Outlook: Stable)	Revised from CARE BB (Double B)
Short Term Bank Facilities	0.50	CARE A4 (A Four)	Reaffirmed
Total Facilities	7.26 (Rs. Seven Crore and Twenty Six Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of The Ravalgaon Sugar Farms Limited (Ravalgaon) is mainly on account of continuous decline in operations and continuous net losses reported leading to erosion of net worth and deterioration in capital structure as well as debt protection metrics during FY16 (refers to period April 1 to March 31) and 9MFY17.

The ratings continue to be constrained by the modest scale of operations with high working capital intensity, inherent industry risk characterized by intense competition in sugar and confectionary industry, raw material fluctuation risk due to dependence on agro-climatic conditions and highly regulated nature of the industry.

The ratings however, continue to derive strength from experienced and resourceful promoters and management, long and established presence of the company in the industry and portfolio of established and well-known products in the confectionery segment.

Ability of Ravalgaon to improve its market presence in the confectionery business and revive its sugar business amidst intense competition along with improvement in profitability and capital structure with efficient management of working capital requirement are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management: Over eight decades of its existence, Ravalgaon has established itself in the sugar industry with long standing relationships with the sugar suppliers & the customers. The promoters of Ravalgaon are vastly experienced with Mr. Harshavardhan B. Doshi (Chairman & Managing Director), having more than three decades of experience in the sugar industry. Further the board of directors is also vastly experienced. The promoters are assisted by a professional management team with rich domain experience.

Portfolio of well-known products: Ravalgaon is engaged in manufacturing of various sugar candies and has a various well-known products namely Pan Pasand Gold, Mango Mood, Laco, Kokonut, Cherries (fruit flavors), Mints (menthol & ginger oil), Coffee breaks, Supreme and Choco Cream Toffee in its portfolio. Ravalgaon distributes these products in more than 15 states in India.

Key Rating Weaknesses

Modest scale with deteriorating operational profile: Due to commercial reasons the company did not run the mill for the sugar season 2013-14 and 2014-15 as well as 2015-16 as the same would have had more adverse effect on the financial position of the company. However, in order to be able to run subsequent seasons without any constraints, the company had to maintain the infrastructure, which has added to losses for the year. Furthermore, the unhealthy competition from unorganized sector poses problems for candy sugar business and hence company is not undertaking manufacture of candy sugar.

The company further reported operating loss of Rs.5.99 crore during FY16; however, the company reported profit on sale of assets (free-hold land) to the tune of Rs.15.35 crore leading to a net profit of Rs.4.92 crore during FY16. Nonetheless, company reported net loss of Rs.4.87 crore in 9MFY17.

Company continues to incur losses on account of high fixed cost in the form of finance and employee cost as well as factory maintenance costs leading to further operating losses.

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Stressed liquidity position: The company's liquidity position is stressed on account of continued losses incurred. The same has led to company selling off its free-hold assets to meet its debt obligations. Further, the company has stopped producing more sugar and is monetizing its old finished goods inventory.

Some comfort can be derived from the fact that the company further has 200 acres of land at its Ravalgaon factory of which only about 20% is occupied by the factory (rest was used as storage space for sugarcane).

Cyclicality, agro-climatic risk and highly regulated nature of the industry

The sugar industry, exposed to agro-climatic risks, is also highly regulated with the government controlling the raw material prices (sugarcane) and the distribution of the output (sugar) by deciding the quantity of levy sugar. The export activities are also checked from time to time by the government.

Sugarcane is an agricultural product therefore its availability depends on the area under cultivation, relative attractiveness of the other crops, climatic conditions and sugarcane arrears. This leads to volatile sugarcane prices, affecting the cost of production to a large extent. However, any adverse movement in prices may result in excess inventory (valued at high costs), leading to inventory loss. Further the non-integrated nature of operations of Ravalgaon, makes its comparatively more vulnerable to sugar cyclicality.

Operating in highly competitive & fragmented confectionary industry

The confectionary industry in India is highly fragmented with predominant presence of unorganized sector. The entry barriers to the industry are very low due to the low capital intensity coupled with modest level of technology involvement and the operating margin is susceptible to new capacity additions in the industry. Ravalgaon has cluster presence in Malegaon Taluka, Nashik district of Maharashtra and hence, it faces intense competition from several unorganized players involved in the similar line of business limiting its bargaining power vis-à-vis the customers.

Analytical Approach - Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short term ratings](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

About the company

Incorporated in 1933, The Ravalgaon Sugar Farms Limited (Ravalgaon) is involved in the business of manufacturing of sugar and confectioneries. Under the confectionary division established as a forward integration, the company manufactures candies in the names of Pan Pasand Gold, Mango Mood, Laco, Kokonut, Cherries (fruit flavors), Mints (menthol & ginger oil), Coffee Breaks, Supreme and Choco Cream Toffee. This division contributed ~74% of the total revenue in FY16 (Audited; refers to period April 01 to March 31). Ravalgaon's factory, located at Malegaon, Nasik (Maharashtra), has a sugar crushing capacity of 2000 TCD (tones of crushing per day) and can produce S-30, M-30, and L-30 varieties of white sugar.

During FY16, Ravalgaon reported total operating income (TOI) of Rs.18.59 crore with a net profit of Rs.4.92 crore. Furthermore, company reported TOI of Rs.10.81 crore in 9MFY17* (vis-à-vis Rs.14.31 crore in 9MFY16*) along with net loss of Rs.4.87 crore*.

*Source: BSE and ACE Equity

Status of non-cooperation with previous CRA:

Nil

Any other information:

Nil

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com****About CARE Ratings:**

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October 2019	2.22	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	4.54	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.50	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	2.22	CARE B+; Stable	-	1)CARE BB (13-Apr-16)	1)CARE BB+ (14-Apr-15)	1)CARE BB+ (11-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	4.54	CARE B+; Stable	-	1)CARE BB (13-Apr-16)	1)CARE BB+ (14-Apr-15)	1)CARE BB+ (11-Apr-14)
3.	Non-fund-based - ST-Bank Guarantees	ST	0.50	CARE A4	-	1)CARE A4 (13-Apr-16)	1)CARE A4 (14-Apr-15)	1)CARE A4 (11-Apr-14)

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