Rating Advisory

March 10, 2021 | Mumbai

Parvati Sweetners and Power Limited

Advisory as on March 10, 2021

This rating advisory is provided in relation to the rating of Parvati Sweetners and Power Limited

The key rating sensitivity factors for the rating include:

Upside scenario

- Increase in scale of operations by 40% on account of addition in capacity while maintaining operating margin leading to significant increase in cash accruals
- Improvement in working capital cycle
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Downside scenario

- Decline in revenue by more than 30%, with operating margin less than 12 % leading to lower-than-expected net cash accrual
- Delay in project for capacity addition or cost overrun impacting the financial risk profile
- Sizeable stretch in the working capital cycle

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Parvati Sweetners and Power Limited (PSPL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If PSPL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016, SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 and **SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt January 3, 2020** issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Company

PSPL, incorporated in December 2011, is a Madhya Pradesh-based company that has a sugar manufacturing plant in Sankhini, Gwalior (Madhya Pradesh), with installed capacity to crush up to 2,500 tonne per day.

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Rating Rationale

December 06, 2019 | Mumbai

Parvati Sweetners and Power Limited

'CRISIL BB+/Stable' assigned to bank debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.30 Crore**
Long Term Rating	**CRISIL BB+/Stable (Assigned)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its **'CRISIL BB+/Stable'** rating to the bank facilities of Parvati Sweetners and Power Limited (PSPL).

The rating reflects the extensive experience of the promoters in the sugar industry and PSLPL's above average financial risk profile. These strengths are partially offset by the cyclicality associated with the sugar business, dependence on monsoon and large working capital requirements.

Analytical Approach

Unsecured loans (outstanding at Rs 40.96 crore as on March 31, 2019) extended to PSPL by the promoters have been treated as NDNE. That is because these loans are expected to convert into equity by March 2020.

Key Rating Drivers & Detailed Description

Strengths:

* **Extensive experience of the promoters:** Benefits derived from the promoters' experience of over a decade, their strong understanding of local market dynamics, and healthy relations with suppliers and customers should continue to support the business.

* **Above average financial risk profile:** The total outside liabilities to tangible net-worth ratio was low at 0.46 time as on March 31, 2019, and has been so for the past three fiscals. Debt protection metrics were adequate, with interest coverage and net cash accrual to total debt ratios of 3.28 times and 0.17 time, respectively, for fiscal 2019. The financial risk profile likely to remain at similar level over the medium term, supported by healthy profitability and limited reliance on external funds.

Weaknesses:

* **Cyclicality associated with sugar business and dependence on monsoon:** Cane production is highly dependent on the monsoons and better realisations in alternatives such as rice and wheat might prompt farmers to switch to sowing these crops as well. Also, cane availability is restricted to the command area allocated to each company. In India, alternative sweeteners to sugar are gur and khandsari. Lower sugarcane yields and an increase in the sale of sugarcane to gur and khandsari manufacturers may lead to decrease in sugar production. Further, sugarcane and the other by-products manufactured remain extremely sensitive to fluctuations to commodity prices thereby significantly impacting the revenue and profitability.

* **Large working capital requirements:** Gross current assets were 504 days as on March 31, 2019, driven by inventory of 260 days. Inventory level is high due to seasonal nature of sugarcane as it has to be procured in bulk

during the season (October to April) to meet the demand throughout the year. CRISIL believes The working capital cycle is expected to remain stretched over medium term.

Liquidity Adequate

Cash accrual projected at Rs 6.02-12.90 crore per annum over the medium term should comfortably meet the yearly maturing debt of Rs 4.58-5.95 crore; the surplus cash will be used as working capital. Thus, bank limit utilisation was low and averaged 23% during the 12 months through September 2019. The promoters are also expected to continue extending timely, need-based funds to aid financial flexibility.

Outlook: Stable

CRISIL believe PSPL will continue to benefit from the extensive experience of the promoters, and established relationships with clients.

Rating Sensitivity factors

Upward factor

* Increase in scale of operation by 40% on account of addition in capacity while maintaining operating margins leading to significant increase in cash accruals
* Improvement in working capital cycle

Downward factor

* Decline in revenue by more than 30 percent with operating margins less than 12 % leading to lower than expected net cash accruals
* Delay in project for capacity addition or cost overrun impacting financial risk profile* Sizeable stretch in the working capital cycle.

About the Company

PSPL, incorporated in December 2011, is a Madhya Pradesh-based company that has a sugar manufacturing plant in Sankhini near Gwalior (Madhya Pradesh), with installed capacity to crush up to 2,500 tonne per day.

Key Financial Indicators

As on/for the period ended March 31	Units	2019	2018
Operating income	Rs crore	59.75	59.83
Reported profit after tax	Rs crore	0.05	1.45
PAT margins	%	0.1	2.4
Adjusted Debt/Adjusted Net worth	Times	0.46	0.72
Interest coverage	Times	3.28	2.60

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Cr)	Rating Assigned with Outlook

NA	Proposed Cash Credit / Bills Discounting Limit	NA	NA	NA	6.0	CRISIL BB+/Stable
NA	Term Loan	NA	NA	Mar-2024	6.3	CRISIL BB+/Stable
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	17.7	CRISIL BB+/Stable

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	30.00	CRISIL BB+/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Term Loan	6.3	CRISIL BB+/Stable	--	0	--
Proposed Cash Credit / Bills Discounting Limit	6	CRISIL BB+/Stable	--	0	--
Proposed Fund-Based Bank Limits	17.7	CRISIL BB+/Stable	--	0	--
Total	30	--	Total	0	--

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings
Rating Criteria for Sugar Industry
CRISILs Bank Loan Ratings

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