

Vishwaraj Sugar Industries Limited

Issue Snapshot:

Issue Open: September 30 – October 04, 2019

Price Band: Rs. 55 – 60

Issue Size: 1,00,00,000 eq shares (Fresh Issue 30,00,000 + Offer for sale 70,00,000 eq sh)

Issue Size: Rs. 55 -60 crs

QIB at least 10,00,000 eq sh
Non Institutional at least 40,00,000 eq sh
Retail at least 50,00,000 eq sh

Face Value: Rs 10

Book value: Rs 61.20 (March 31, 2019)

Bid size: - 240 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 34.56 cr
Post issue Equity: Rs. 37.56 cr

Listing: BSE & NSE

Book Running Lead Manager: Aryaman Financial Services Limited

Registrar to issue: Bigshare Services Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	54.22	32.83
Public & Employee	45.78	67.17
Total	100.0	100.0

Source for this Note: RHP

Background & Operations:

Vishwaraj Sugar Industries Ltd is an integrated sugar and other allied products manufacturing company operating from Belgaum District in the State of Karnataka which is designated as one of the “High Recovery zones” for sugar production by Government of India. It operates a single location sugar unit having licensed crushing capacity of 11,000 TCD. In addition to sugar it also manufactures other allied products like Rectified Spirits, Extra-Neutral Spirits, Indian Made Liquor, Vinegar, Compost, Carbon dioxide (CO₂), etc. and are further engaged in the generation of Power for captive consumption as well as external sale. Its business can hence be broken up into five main segments namely Sugar, Co-Generation, Distillery, Indian Made Liquor (IML) and Vinegar.

In the year 2001, it commenced operations of manufacture of Distillery products such as Ethanol, Rectified Spirit and Extra Neutral Spirit. In the year 2006, it implemented backward integration and began commercial operations for Sugar manufacture from sugarcane, along with Co-Generation capabilities. During the year 2008, it began bottling of Indian Made Liquor. Currently its integrated unit processes sugarcane to produce sugar and the by products are used to generate electricity for captive use and commercial sale, manufacture rectified spirit, ENA, IML, Vinegar, Press-mud and Compost. Over the years, it has expanded the production / manufacturing capacities of all its products.

Production of sugar, power and distillery products requires VSIL's to adopt stringent Quality Assurance and Quality Control standards (QA/QC). It has set-up indigenous laboratories for each department which ensures that quality of raw material used in the production process and also the finished goods delivered to its customers is subject to various tests. During the production of sugar; bagasse and molasses are produced which are the basic raw materials for power generation and Distillery (Spirit) manufacturing unit, respectively. The sugar unit of VSIL's integrated production facility first crushes sugarcane to extract juice and processes the juice to produce sugar. The sugar manufactured is then graded and packed based on the size of crystals and quality of the sugarcane. During the last fiscal year, it produced 32,170 tonnes of sugar.

Molasses is the viscous product resultant of refining sugarcane juice. Molasses, which forms the primary raw material for the distillery unit, is fermented, distilled and made to undergo various processes for making rectified spirit and extra neutral spirit. Rectified Spirit is processed to manufacture Industrial Vinegar. Extra- Neutral spirit is further processed for manufacture of IML products. The Extra-Neutral spirit is blended to manufacture Whiskey which is sold by VSIL under its various brands like VSL Deluxe Whisky, District-1 and VSL Black. During the last financial year, it manufactured approximately 1,23,060 boxes of IML, 1,07,79 KL of Industrial Vinegar, 3156.59 KL of Rectified Spirit and 969.47 KL of Extra-Neutral Spirit.

Further the waste water extracted from Distillery unit is called as spentwash which is further mixed with mud to form Compost / Organic Manure, which is supplied back to farmers for cultivation of their fields which ensures higher yields. Further the company has set up a CO₂ plant also. Thus, nothing is wasted, as every single output whether residue or by-product is utilised.

VSIL's revenue from operations for the last 3 years i.e. F. Y. 2016-17, 2017-18 and 2018-19 were Rs 32,184.21 lakhs, Rs 25,928.30 lakhs and Rs 30,679.58 lakhs. The Company reported losses in 2 of the 3 above periods, mainly due to high sugarcane price and competitive sugar prices. Its net profits / loss for F. Y. 2016-17, 2017-18 and 2018-19 were Rs 606.25 lakhs, Rs (426.67) lakhs and further Rs (1,761.99) lakhs respectively.

Objects of Issue:

The Offer comprises of a Fresh Issue by VSIL and an Offer for Sale by the Selling Shareholders.

The Offer for Sale

The Selling Shareholders propose to sell an aggregate of up to 70,00,000 Equity Shares held by VSIL. The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholders.

The Objects of the Net Fresh Issue is to raise funds for:

- Funding Working Capital Requirement
- General corporate purpose

Further, VSIL expects that the listing of the Equity Shares will enhance its visibility and brand image among its existing and potential customers.

Competitive Strengths

- Experienced Promoters and strong Executive Team
- Wide range of products
- Integrated operations and economies of scale
- Strong Technological Capabilities
- Strategic location of manufacturing unit
- Cordial and strong relationships with sugarcane farmers
- Captive Power plant and exportable capacity

Business Strategy:

- Increasing operational efficiency
- Explore possibilities of geographical expansion
- Addition of new IML products
- Augment fund based capacities in order to scale up business operations

Key Concerns:

- Changes in laws and regulations relating to the sectors/areas in which VSIL's operate
- Inability to identify the new premises may adversely affect the operations, finances and profitability of the Company;
- Uncertainty regarding the sugar market, sugar & allied products' prices, economic conditions and other factors beyond its control;
- Inability to identify or effectively respond to consumer needs, expectations or trends in a timely manner;
- VSIL's ability to successfully implement its growth strategy and expansion plans, and to successfully launch and implement various projects;
- Volatility of Loan interest rates and inflation;
- Failure to keep pace with rapid changes in technology;
- Ability to meet its further capital expenditure requirements;
- Fluctuations in operating costs;
- Ability to attract and retain qualified personnel;
- Conflict of Interest with affiliated companies, the promoter group and other related parties;
- Changes in political and social conditions in India, the monetary and interest rate policies of India and other countries;
- General economic and business conditions in the markets in which VSIL operates and in the local, regional, national and international economies;
- Changes in government policies and regulatory actions that apply to or affect its business;
- The performance of the financial markets in India and globally;
- The occurrence of natural disasters or calamities; and
- Failure to successfully upgrade its products and service portfolio, from time to time.

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