Press Release

K.M.Sugar Mills Limited

September 09, 2020

Ratings

Facility*	Amount (Rs. Crore)	Rating	Rating Action
Long Term Fund based facilities - Term Loan	36.25	IVR BBB+ /Stable (IVR Triple B Plus with Stable Outlook)	Assigned
Long Term Fund based facilities - Cash Credit	161.25	IVR BBB+ /Stable (IVR Triple B Plus with Stable Outlook)	
Short Term Non-Fund based facilities - Bank Guarantee	7.00	IVR A2 (IVR A Two)	
Total	**204.50**		

**Details of Facilities are in Annexure 1*

Detailed Rationale

The ratings assigned to the bank facilities of K.M.Sugar Mills Limited (KMSML) takes into account its experienced promoters with diversified portfolio, satisfactory financial risk profile with healthy debt protections metrics, improvement in cash conversion cycle These are partially offset by risk susceptibility due to vagaries of nature, cyclical nature of business and risk related to various government rules & regulations.

Key Rating Sensitivities

Upward Factors

- Improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection parameters on a sustained basis

Downward Factors

- Decline in profitability due to any company or industry related factors leading to deterioration in debt protection metrics.
- Any adverse government regulations.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and management:** Mr. L K Jhunjhunwala, is the Chairman of the company with an extensive experience of more than 5 decades in Sugar business. Mr. Aditya Jhunjhunwala, looks after the day to day operation and has almost 3 decades of experience in this line of business. Mr. Mr. Sanjay Jhunjhunwala, has business experience of over 2 decades is Joint Managing director in the company. He looks after commercial operations and distillery business.

- **Satisfactory financial risk profile marked by healthy debt protection metrics:** The Company's total income in FY2020 increased by 34% on a year-on-year basis led by increase in revenues from the Sugar division coupled with increased exports through merchant exports. The operating profitability improved from Rs. 38.01 crore in FY2019 to Rs. 50.19 crore in FY2020. The debt protection metrics remained healthy in FY2020 with ISCR at 2.81x and DSCR at 1.98x. The overall gearing ratio and Long term debt Equity ratio stood at 1.38x & 0.55x respectively in FY2020.In Q1FY2021 the total income has increased by 69% on a yoy basis led by increased sales from sugar and Co-generation business division as well as sales from sanitizers. The profitability has improved led by increased sugar recovery rate, increase in sugar prices and better ethanol prices.

- **Improved Cash Conversion Cycle:** The Company's gross current assets have improved from 252 days in FY19 to 227 days in FY2020 on account of lower inventory days in FY2020. The gross current assets are projected to improve to 196 days in FY2021 led by lower inventory holding days. The overall cash conversion cycle stood modest at 111 days as of 31st March 2020.

- **Recent government measures for sugar sector:** Indian Government has supported the sugar industries by increasing the minimum selling price of sugar by Rs.2 per kg in February 2019. The Cabinet Committee on Economic Affairs (CCEA) has approved sugar export policy for evacuation of surplus stocks during sugar season 2019-20. The CCEA has given nod to sugar export subsidy of about

Rs.6,268 crore for FY20 in order to liquidate surplus domestic stock and help mills in clearing huge sugarcane arrears to farmers in August 2019. The cabinet has approved export subsidy for 6 lakh metric tonne (LMT) for 2019-20. The government will provide a lump sum subsidy of Rs.10, 448 per metric tonne to sugar mills for the sugar season 2019-20. The export subsidy will be provided for expenses on marketing costs including handling, upgrading and other processing costs, international and internal transport costs and freight charges. The subsidy would be directly credited into farmers' accounts on behalf of mills against sugarcane price dues. Subsequent balance, if any, would be credited to mills' account.

Key Rating Weaknesses

- **Exposed to vagaries of nature:** Being an agro-based industry, performance of K.M.Sugar Mills is dependent on the availability of sugarcane crop and its yield, which may get adversely affected due to adverse weather conditions. The climatic conditions and pest related attacks have a bearing on the cane output, which is the primary feedstock for a sugar producer. Climatic conditions, to be precise the monsoons influence various operational structures for a sugar entity, such as the crushing period and sugar recovery levels. In addition, the degree of dispersion of monsoon precipitation across the sugar cane growing areas also leads to fluctuating trends in sugar production in different regions.

- **Exposure to risk related to government regulations:** The Sugar industry is highly exposed to risks related to Government regulations. Various Government Acts virtually governs all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by - product pricing. The procurement of sugarcane by the sugar entities is governed by the Sugarcane (Control) Order, 1966, which stipulates that the mills need to source their sugarcane only from the command area allocated to them. The order also makes it mandatory for the sugar mill to necessarily uplift the entire sugarcane production of the farmer, irrespective of the market demand, which has a considerable impact on the inventory holding pattern. Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market. Moreover, ethanol-blending policy is also highly regulated by the government. Vulnerability in business due to Government regulations is likely to continue over the medium term.

- **Cyclical nature of the sugar business:** The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country with typical sugar cycles lasting three five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The Gross cash accruals are healthy at Rs. 37.78 crore in FY2020 as against loan repayments of Rs. 25.24 crore falling due over the next 12 months. The company has been sanctioned financial assistance of Rs. 16.12 crore under COVID-19 emergency credit line in April 2020 to meet temporary liquidity mismatches. The COVID-19 emergency credit line has a moratorium of 6 months. The average CC utilization for past 12 months ending in July 2020 is at 75% and thus there is adequate cushion in the working capital limits.

About the Company

KM Sugar Mills Ltd (KMSML) was incorporated in 1971 and has been engaged in the manufacturing and selling the sugar, power and industrial alcohols. The company has the sugar plant with the installed capacity of 9000 TCD, Distillery Plants of 50KLPD, Ethanol and cogeneration plant of 25MW. Sugar Plant manufactures & sells 3 grades of sugar in 50 Kg of bags. Distillery Plant manufactures rectified spirit, special denatured spirit, ethanol & Sanitizer. The company has its own baggase based Co-Gen Power plant with the capacity

25MW of Motinagar, Faizabad , Uttar Pradesh. The company is supplying surplus power to the Uttar Pradesh Power Corporation Ltd.

The company has two subsidiary companies namely Sonar Casting Ltd and K M Spirits and Allied Industries Ltd to manufacture of all types of spirits. However, Sonar casting Ltd. ceased to be a subsidiary with effect from 26.12.2019

Financials: Standalone **(Rs. crore)**

For the year ended*/As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	390.05	531.35
EBITDA	38.01	50.19
PAT	24.35	18.43
Tangible Net worth	169.08	187.28
Tangible Net worth (Adj)	108.60	126.55
EBITDA Margin (%)	9.74	9.45
PAT Margin (%)	6.02	3.40
Overall Gearing Ratio (x)	1.00	1.38

**As per Infomerics Standards*

For the quarter ended*	Q1FY2020	Q1FY2021
	Unaudited	Unaudited
Total Operating Income	103.69	175.45
EBITDA	8.20	17.84
PAT	2.73	9.27
EBITDA Margin (%)	8.13	10.22
PAT Margin (%)	2.71	5.31

**As per Infomerics Standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	36.25	IVR BBB+/stable Outlook (IVR Triple B Plus with Stable Outlook)	NA	NA	NA
2..	Cash Credit	Long Term	161.25		NA	NA	NA
3..	Bank Guarantee	Short Term	7.00	IVR A2 (IVR A Two)	NA	NA	NA
Total			**204.50**				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Ms. Netra Rathod	Name: Mr. Prakash Kabra
Tel: (022) 62396023	Tel: (022) 62396063
Email: nrathod@infomerics.com	Email: praskash.kabra@infomerics.com

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

ANNEXURE I

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	-	-	31-03-2025	36.25	IVR BBB+/stable Outlook (IVR Triple B Plus with Stable Outlook)
Long Term Bank Facilities – Cash Credit	-	-	-	161.25	
Long Term Bank Facilities – Bank Guarantee	-	-	-	7.00	IVR A2 (IVR A Two)
Total				**204.50**	