



Press Release

Loknete Marutrao Ghule Patil Dnyaneshwar Sahakari Sakhar Karkhana Limited (LMGPDSSKL)

April 23, 2024

Ratings:

Instrument / Facility	Amount (Rs. Crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities	90.00 (Increased from 60.00)	IVR BB+/ Stable [IVR Double B Plus with stable outlook]	Reaffirmed	Simple
Proposed Long Term Fund Based Bank Facilities	10.00 (Reduced from 40.00)	IVR BB+/ Stable [IVR Double B Plus with stable outlook]	Reaffirmed	Simple
Total	100.00	Rupees One Hundred Crore Only		

Details of Facilities are in Annexure 1

Detailed Rationale:

Infomerics has reaffirmed the bank facilities of Loknete Marutrao Ghule Patil Dnyaneshwar Sahakari Sakhar Karkhana Limited continue to derive strength from the area in which it is located which is proximate to Jayakwadi dam, established relationships with cane growers, forward integration into distillery and power co-gen operations; favourable PPA arrangements with Maharashtra state power DISCOM, fiscal support from the government in the form of soft loans, threshold sugar realizations and cane procurement cost amongst others, fluctuating revenues in the past fiscals although some improvement noted in current fiscals. However, the rating strengths are partially offset by moderate liquidity and debt protection metrics vagaries of nature, risk related to government regulations and cyclical nature of the sugar business.

Key Rating Sensitivities:

Upward Factors

- Overall improvement in revenue and profitability leading to improvement in gross cash accruals resulting in overall improvement in liquidity.



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Downward Factors

- Declined in revenue and profitability leading to deterioration in credit profile and the liquidity.

Key Rating Drivers with detailed description

Key Rating Strengths:

Sustained improvement in financial risk profile:

LMGPDSSKL revenue has increased by 13% on y-o-y basis to Rs.681.03 crore in FY23 driven by higher realisation during sugar season (SS23), higher exports, benefits of low value closing stock and higher crushing period. EBITDA margin increased to 8.80% in FY23 (FY22:7.49%) due to positive correction in volume of sugar demand and supply, better realization of sugar, molasses, bagasse, products of distillery. During FY24, revenue is likely to be lower as compared to FY23 due to lower crushing period, ban on sugar exports. Till 10MFY24, LMGPDSSKL has reported revenue of Rs.500.37 crore.

Proximity to water resources

The cooperative's catchment area lies in close vicinity to Jayakwadi dam (Godavari River) which is one of the largest dams in Maharashtra and thus supports the cane grown in the area. Being a large water source, also supports cane farming in absence of any shortfall in the annual precipitation thus maintaining a seamless cane production year on year.

Established relationships with cane growers given its long operational history

The cooperative given its long operational history has developed established relationships with farmers in its catchment area which has resulted in continuous cane supply to the factory year on year and thus maintain adequate capacity utilisations across all the three functions, sugar, distillery and power. While the sugar mill capacity utilization remained more than 100%, distillery capacity utilization remained more than 100% while PLF of the Cogen plant remained moderate in the previous season, subdued cane availability in FY2023 due to low cane availability in the ensuing season on dampened rainfall in the previous season ultimately resulting in low sugar production.



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Forward integration into distillery and power co-gen operations; favourable PPA arrangements with Maharashtra state power DISCOM

The cooperative's operations remain forwardly integrated with power and distillery operations which provide the necessary buffer to the profitability. Further, the distillery products include Rectified Spirit (RS), Special Denatured Spirit (SDS) while the power generated is broadcasted to the state electricity grid. The cooperative has PPA arrangements with MSSEDCL for its power manufactured.

Fiscal support from the government in the form of soft loans, threshold sugar realizations and cane procurement cost amongst others

The cooperative also benefits from the various fiscal incentives extended by the Government to the domestic sugar industry which include subsidy for sugar exported, capital subsidy, soft loans interest subvention scheme. The export subsidy benefit overall has materially impacted the margins of the sugar entities in the past fiscals. The Government of India also fixes the threshold cane procurement price annually, while periodically revising the minimum sugar realizations. The Government has also promoted the manufacturing of ethanol from B Molasses against C-molasses mainly by offering it a relatively higher.

B. Key Rating Weaknesses

Stretched Liquidity and moderate debt protection metrics:

LMGPDSSKL liquidity remained stretched reflected by DSCR remaining below unity during through FY22-FY24, which was funded through cash credit facilities and sugar pledge loans. Current ratio as well as is also weak and stood at 0.83x and 0.27x respectively at the end of FY23 (FY22:0.86x and 0.26x respectively). Current ratio and quick ratio were at 0.83x and 0.27x respectively in FY23, as against 0.86x and 0.26x respectively as on March 31, 2022. The operations of the company are working capital intensive in nature on account of high inventory holding. Though, overall gearing improved to 2.06x (FY22:2.80x) in FY23 however TOL/TNW remained high and at 4.13x. (FY22: 4.92x).

Exposed to vagaries of nature

Being an agro-based industry, performance of LMGPDSSKL 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



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bearing on the cane output, which is the primary feedstock for a sugar producer. Climatic conditions, to be precise the monsoons influence various operational strictures 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.

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 Approach

Applicable Criteria:

[Criteria for rating Outlook](#)

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria on default recognition](#)



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Liquidity – Stretched

The company's liquidity is expected to remain stretched with projected cash accrual tightly matching with the repayment. Any further negative deviation from the projection will impact the repayment adversely. However, no planned capex provides some comfort. Any short-term mis match in the cash flow will be managed by further fund contribution by the society members or a bridge loan. The free cash balance as on March 31,2023 stood at Rs. 8.16 crore while average working capital utilisation for the 12 months ended January 2024 remained at ~45%. LMGPD's continued focus on ethanol in the near term is likely to further increase the fund flows from operations aiding some liquidity buffer.

About the Company/ Cooperative society:

Loknete Marutrao Ghule Patil Dnyaneshwar Sahakari Sakhar Karkhana Limited a cooperative society was established in 1972 by the Late Mr. Marutrao Ghule. The society is presently managed by his sons Mr. Ghule Narendra Marutrao and Mr. Ghule Chandrashekhar Marutrao, along with an elected board of directors.

The society has more than 15,000 members mainly consisting of sugarcane farmers. The Society is engaged in manufacturing of sugar along with industrial alcohol and ethanol. It has also set up a 31.5 MW cogeneration power plant at Dnyaneshwar Nagar, Bhende Taluka Newasa District Ahmednagar. The Society set up a sugar plant with a total installed capacity of 7000 Tonnes Crushing per Day (TCD) and distillery unit with 45 Kilo litre per day (KLPD) using molasses.



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Financials Standalone

For the year ended/ As On	(Rs. crore)	
	31-03-2022 (Audited)	31-03-2023 (Audited)
Total Operating Income	605.20	681.48
EBITDA	45.36	60.00
PAT	1.46	24.58
Total Debt	407.13	357.18
Tangible Net-worth	145.24	173.51
Ratios		
EBITDA Margin (%)	7.49	8.80
PAT Margin (%)	0.24	3.55
Overall Gearing Ratio (x)	2.80	2.06

**Classification as per Infomerics Standards*

Status of non-cooperation with previous CRA:

Brickwork ratings continues to classify the rating of LMGPDSSKL under Issuer Not Cooperating category vide its latest press release dated February 20, 2024 due to unavailability of information.

Any other information: Not Applicable

Rating History for last three years:

Sr. No	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past years		
		Type	Amount (Rs. crore)	Rating (Mar 23, 2024)	Date(s) & Rating assigned in 2023- 24	Date(s) & Rating assigned in 2022-23 (Feb 24, 2023)	Date(s) & Rating assigned in 2021-22 (Dec 31, 2021)
1.	Cash Credit	Long Term	90.00	IVR BB+/Stable	--	IVR BB+/Stable	IVR BB+/Stable
2.	Proposed - Cash credit	Long Term	10.00	IVR BB+/Stable	--	IVR BB+/Stable	IVR BB+/Stable

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Cash credit	--	--	--	90.00	IVR BB+/ Stable
Proposed Cash credit	--	--	--	10.00	IVR BB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: <https://www.infomerics.com/admin/prfiles/Len-LNMGPDSSKL-23april24.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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 <https://www.infomerics.com/>.