Shri Gurudatt Sugars Limited

October 30, 2024

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	779.52 (enhanced from Rs. 711.12 crore)	IVR BBB+/ Stable	IVR BBB+/ Stable	Reaffirmed	Simple
Short Term Bank Facilities	2.00	IVR A2	IVR A2	Reaffirmed	Simple
Total	**781.52 (INR Seven Hundred and Eighty-One Crore and Fifty-Two Lakh only)**				

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Shri Gurudatt Sugars Limited (SGSL) continue to derive comfort from its long track record of operations under experienced promoters along with favourable location of the plant and its integrated operations. The ratings are also underpinned by stabilization in the operation of distillery unit and consequent expected higher revenue from Ethanol segment in the future. Further, the ratings also note strong operating performance of the company in 7MFY25 [FY refers to the period from April 1 to March 31] amid healthy demand of ethanol and higher sugar sales. However, these rating strengths remain constrained by working capital intensive nature of the business, moderate financial risk profile of the company marked by leveraged capital structure and moderate debt protection metrics, exposure to agro climatic risks, exposure to risk related to government regulations and cyclical nature of the sugar business.

The stable outlook reflects that the company will benefit from the extensive experience of promoters in the sugar industry coupled with expected rise in sugar prices and stable revenue from distillery unit.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals on a sustained basis

- Improvement in the capital structure and/or improvement in debt protection metrics on a sustained basis
- Improvement in working capital management leading to improvement in operating cycle and liquidity

Downward Factors

- Decline in revenue and profitability leading to deterioration in debt protection metrics
- Deterioration in the capital structure with moderation in overall gearing to over 3x
- Increase in operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters in the sugar industry, long track of operations**
  The Ghatge family has vast experience in the sugar industry. Long standing presence of the promoter in the industry has helped the company to build established relationships with both customers and suppliers.
- **Integrated operations**
  The company derives benefit from its forward-integrated sugar plant, which comprises 200 KLPD distillery and 21 MW co-generation capacities. Ethanol produced from B-heavy molasses in the distillery unit is procured by the oil marketing companies (OMCs), additionally ~60-65% of the total power units generated through the co-generation plant are exported to Maharashtra State Electricity Distribution Company Limited (MSEDCL) under a Power Purchase Agreement.
- **Improvement in the operations of distillery unit**
  In FY24, the company gathers most of its revenues from distillery products (Ethanol) followed by sugar sales. Sales of distillery products contributed more than 50% of total revenue in FY24. The ethanol segment of the company started operating during FY21 and witnessed gradual stabilization in FY22. Based on healthy demand of Ethanol, the company increased its distillery unit capacity from 60 KLPD to 200 KLPD in October 2022, however its full-fledged operations started since March 2023. Aided by rise in revenue from high margin yielding ethanol segment, the operating margin of the company has improved in FY24.

In FY24, the company has witnessed moderation in its sugar sales due to cautious decision taken by the company to curtail sugar sales mainly from Q3FY24 in anticipation of rise in sugar prices in H1FY25. In December 2023, the central government issued a ban on use of sugarcane juice for producing ethanol which in turn resulted in rise in sugar production and consequently exerted pressure on domestic sugar prices. In view of the same, the company decided to reduce its sugar sales and hold the inventory. Accordingly, the company has maintained sugar stock of ~730000 quintals (as against normal inventory holding of ~300000 quintals) as on March 31,2024. In view of lifting of ban by the central government in August, 2024 and global supply shortage, sugar prices have recovered. Accordingly, the company has been able to sale its inventory at higher prices in H1FY25 which resulted in boost in its profitability. Till October 2024, the company has achieved a revenue of ~Rs.426 crore with an EBITDA of Rs.91.6 crore and EBITDA margin of 21.5%.

- **Favourable plant location**
  The plant of SGSL is situated in a cane rich belt area of Maharashtra. Moreover, the company’s established relations with cane growers have ensured steady supply of sugar cane over the years.
- **Government’s measures to support sugar industry**
  The Government has been supporting the sugar industry by way of various measures such as an introduction of MSP, interest subvention loans for ethanol expansion, soft loans for clearing cane dues, export subsidy and creation of sugar buffer stock to improve the demand-supply situation in the domestic market. Further, in global market sugar prices are touching new highs due to draught situation in Brazil which is one of the leading sugar producers in the world. The global supply mismatch is expected to push the domestic prices higher in the near term.

Key Rating Weaknesses

- **Exposure to agro-climatic risks**
  Being in an agro-based industry, performance of the company 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. Government intervention 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. However, presently the Government has increased its focus on ethanol and taken favourable policy initiatives towards higher diversion of sugarcane to ethanol production.

- **Working capital intensive nature of operations**

  Since sugar is an agro-based commodity (with sugarcane crushed mainly during November to April), sugarcane has to be crushed within a day or two of its arrival in the mills. Hence, the sugar inventory is piled up during the crushing season and gradually released till the commencement of the next crushing season, resulting into high inventory carrying cost and requirement of higher working capital. The operating cycle of the company remained elongated, increased from 219 days in FY23 to 316 days in FY24 (Provisional).

- **Moderate financial risk profile marked by leveraged capital structure and moderate debt protection metrics**

  The overall gearing ratio moderated from 2.50x as on March 31,2023 to 2.80x as on March 31, 2024, due to increase in debt level on account of higher working capital requirements. Driven by higher finance cost attributable to elevated debt level, interest coverage ratio moderated from 1.86x in FY23 to 1.60x in FY24 (Provisional). Total indebtedness of the company marked by TOL/ATNW also moderated to 3.94x as on March 31, 2024 (Provisional) against 3.31x as on March 31,2023.

- **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. However, the company’s increased focus on Ethanol segment mitigates the cyclicality risk to some extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity profile of the company is expected to remain adequate with gross cash accruals expected to be in range of Rs.102 crore to Rs.148 crore as against the expected debt repayments of Rs.61 crore to Rs.70 crore during FY25 to FY27. The average working capital utilisation for the past 12 months ending July 2024 remained satisfactory at ~54% which provides liquidity comfort. Also, liquidation of the sugar stock at remunerative realisations also remains crucial to the liquidity of the sugar mills. Further, the company has free fixed deposits of Rs.15 crore which provides addition liquidity cushion.

About the Company

Incorporated in January 2000, Shri Gurudatt Sugars Limited is promoted by Late Shri. Bhagvanrao G. Ghatge & his son Shri. Madhavrao B. Ghatge. The company is engaged in the business of sugar and allied products. The company commenced sugar manufacturing operations in November 2004 located at Takliwadi, Tal. Shirol, Dist. Kolhapur with an initial capacity of 2500 tonnes crushed per day (TCD). The cane crushing capacity has gradually increased over the years and currently stands at 6,000 TCD. The company's sugar operations are further supported by a bagasse-based co-generation power plant of 21 MW and a distillery unit for production of Ethanol, ENA, rectified spirit/ impure spirit with an installed capacity of 60 kilolitres per day (KLPD) which has now been further enhanced to 200 KLPD in October 2022.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	703.56	493.81
EBITDA	83.45	79.81

PAT	23.38	18.00
Total Debt	592.15	714.65
Tangible Net Worth	237.12	255.11
EBITDA Margin (%)	11.86	16.16
PAT Margin (%)	3.28	3.58
Overall Gearing Ratio (x)	2.50	2.80
Interest Coverage (x)	1.86	1.60

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Brickwork Ratings has maintained the rating of SGSL in the Issuer Non-Cooperating category due to continued lack of management cooperation and non-submission of NDS as per the Press Release dated Mar 15, 2024.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/Facilities	Current Ratings (2024-25)			Rating History for the past 3 years		
		Type	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2023-24**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in in 2021-22**
					Sep 1, 2023	**Jan 12, 2023**	**-**
1.	Term Loans	Long Term	376.52	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB/ Positive	-
2.	Fund based Working Capital limit	Long Term	403.00	IVR BBB+/ Stable	IVR BBB+/ Stable	IVR BBB/ Positive	-
3.	Bank Guarantee	Short Term	2.00	IVR A2	IVR A2	IVR A3+	-
4.	Issuer rating	Issuer	-	-	Withdrawn	IVR BBB [Is]/Positive (Dec 13, 2022)	

Analytical Contacts:

Name: Ashish Agarwal Tel: (033) 46022266 Email: aagarwal@infomerics.com	Name: Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

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.

For more information and definition of ratings please visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an ‘as is where is’ basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, 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 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loans	-	-	-	Aug 2034	376.52	IVR BBB+/ Stable
Fund based Working Capital limit	-	-	-	-	403.00	IVR BBB+/ Stable
Bank Guarantee	-	-	-	-	2.00	IVR A2

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-shri-gurudatt-30oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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 www.infomerics.com.