Press Release

GM Sugar and Energy Limited (GMSEL)

December 29, 2023

Ratings

Instrument/ Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	497.17	IVR BBB-/ Stable (IVR Triple B Minus with Stable Outlook)	Assigned	Simple
Total	**497.17**	**(Rupees Four Hundred Ninety-Seven Crore and Seventeen Lakh Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of GMSEL derive strength from profitability expected to improve from FY24 onwards with commencement of ethanol plant, successful completion of capex without any cost and time overrun, average financial risk profile and experienced promoters. The ratings strengths are, however, constrained by exposed to vagaries of nature, cyclical nature of the sugar business and frequent changes in government regulations.

Key Rating Sensitivities:

Upward Factors

- Higher contribution from Ethanol leading to improvement in EBITDA margins.
- Improvement in credit profile with overall gearing falling below 1.2x on a sustained basis.

Downward Factors

- Inability to achieve expected profitability with higher contribution of revenue from Ethanol and/or any unplanned debt funded capex leading to increase in overall gearing above 2x on a sustained basis.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Profitability expected to improve from FY24 onwards with commencement of Ethanol plant and higher sugar prices

GMSEL's revenue increased by 34% to Rs.257.57 crore in FY23 (FY22: Rs.192.51 crore), driven by higher volume and realizations. However, EBITDA margins declined to 12.05% in FY23 (FY22: 19.76%) due to increased cane purchase expenses, resulting from the Government of Karnataka's request for higher prices over and above fair and remunerative price (FRP) for Sugar Season 2022-23, coupled with increased in co-gen expenses as company purchase of molasses from the outside market for power plant operation.

However, during sugar season 2023-24, the Karnataka government did not order higher sugar cane prices, and current prices are higher than the cost of sugar production. Further GMSEL has reported revenue of Rs.157.57 crore at the end of 1HFY24 with EBITDA margin of 22.90%. Moreover, IVR expects, with commencement of commercial production of ethanol and sugar season starting since October, are expected to boost EBITDA margins, aiming for projected margin of 27% for FY24. The PAT margins stood at 19.16% in FY23 due to one-time prior period income related to income tax amounting to Rs.46.48 crore reported during FY23, excluding this PAT margins would have been at 1.12% in FY23 (FY22: 1.08%).

Successful completion of capex without any cost and time overrun

GMSEL completed a Rs. 454.60 crore capex in FY24 to establish a 360 Kilo Litres Per Day (KLPD) of ethanol plant (of which 120 KLPD is grain based), with sugar crushing unit of 5000 Tons of Cane Per Day (TCD), and 30MW co-generation. GMSEL's capex is funded by 70% bank loans, 23% promoter unsecured loans, and balance through equity. GMSEL achieved COD on June 23 in line with bank COD, and commercial production began in October 2023, and is entitled to various subsidies on said capex plan. GMSEL anticipates ethanol contribution of Rs. 200 crore to FY24 revenue, with orders from oil marketing companies for 3,04,83,158 litres of ethanol, utilizing grain production flexibility.

Moderate capital structure and debt coverage indicator

The capital structure marked by overall gearing and total outside liabilities / tangible networth (TOL/TNW) has declined yet remain moderate at 1.70x and 2.13x respectively in FY23 (FY22: 0.97x and 1.38x respectively) mainly due to availment of term loan amounting to Rs.318.00 crore for an ethanol plant and of co-generation and comfort can be drawn from the fact the repayment will commence from June, 2024. The debt coverage indicators marked by interest coverage ratio improved to 1.81x in FY23 (FY22: 1.40x) mainly due to closure of scheme under Sugar Development Fund (SDF) issued by Government of India as on September 21, 2021, resulted in reduction of interest cost to Rs.17.26 crore in FY23 (FY22: Rs.28.01 crore). IVR expects credit profile is expected to improve further with improvement in profitability margins.

Experienced promoters

Since 2007, the company has been operating under the management of experienced professionals, including Mr. Prasanna Kumar Mallikarjunappa Gowdara, Mr. Gowdara Siddesh Anith Kumar, Mr. Yaragenahalli Siddabasappa Nataraju, and Mr. Rajiv Gowdara Lingraju. The management is assisted by a team of qualified professionals having experience in relevant fields. The company has established strong relationships with sugarcane farmers and is expected to benefit in the medium term.

Key Rating Weaknesses

Exposed to vagaries of nature

GMSEL's performance depends on sugarcane crop availability and yield, which can be affected by weather and pest attacks. Monsoons influence operational structures, crushing periods, and sugar recovery levels. Dispersion of monsoon precipitation also influences sugar production trends in different regions.

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.

Frequent changes in government regulations

Due to elevated Sugar Prices and to control inflation along with expected lower sugar cane production during current sugar season 2023-24, GOI as per order dated has restricted use of Sugar Syrup for Ethanol Production. However, with reservations from the industry as majority of the players have invested heavily to produce Ethanol, with this GOI as per order dated December 15, 2023, has again revised its order to allow sugar producers to divert 1.7 million tonnes of sugar for ethanol production due to elevated sugar prices and expected lower sugar cane production during the 2023-24 sugar season. This provides a cushion for sugar millers, who can produce ethanol from B Type Molasses and C Type Molasses, but with lower realizations. Although there are frequent changes in government regulations, however GMSEL 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.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity position of the company remains adequate as cash accruals are expected to match with debt repayment obligations. The average working capital utilisation remains low at 43.0% for 12 months ending November 2023, thus sufficient headroom is available for working capital requirement. The current ratio and quick ratio stood at 1.26x and 0.39x respectively in FY23. Further, net cash flow from operation stood at 193.56 crore in FY23 (vis-à-vis negative cash flow from operation of Rs.104.05 crore in FY22).

About the Company

GM Sugar and Energy Limited (GMSEL), a Bangalore based company, was established in 2007 and engaged in the manufacturing of sugar and power generation. GMSEL acquired the facility on lease from the Karnataka Cooperative Sugar Factory (KCSF) in 2007 for a period of 32 years. As on November 30, 2023 operates two manufacturing units, Unit 1 located at Sangur Village with 4800 Tons of Cane Per Day (TCD) Sugar Crushing Unit and 18MW co-gen plant and Unit 2 located at Kirigere Villaged with 5000 Tons of Cane Per Day (TCD) Sugar Crushing Unit and 30MW co-gen plant and new ethanol plant set up with 360 KLPD capacity (including grain-based capacity of 120 KLPD). The company is promoted by experienced professionals with over three decades of experience in the sugar industry.

Financials (Standalone):

(Rs. crore)

For the year ended / As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	192.51	257.57
EBITDA	38.04	31.03
PAT	2.12	49.38
Total Debt	200.56	441.62
Adjusted Tangible Net-Worth	207.69	259.22
Ratios		
EBITDA Margin (%)	19.76	12.05
PAT Margin (%)	1.08	19.16
Overall Gearing Ratio (x)	0.97	1.70

***** Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

ICRA continued to maintain the ratings assigned to GMSEL’s bank facilities in the ‘Issuer Not Cooperating’ category vide Press Release dated January 20, 2023, due to non-submission of information by the company.

Brickwork Ratings continued to maintain the ratings assigned to GMSEL’s bank facilities in the ‘Issuer Not Cooperating’ category vide Press Release dated March 14, 2023, due to non-submission of information by the company.

Acuite migrated the ratings assigned of GMSEL’s bank facilities in the ‘Issuer Not Cooperating’ category vide Press Release dated July 18, 2023, due to non-submission of information by the company.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based – Term Loan	Long Term	381.17	IVR BBB-/ Stable	--	--	--
2.	Fund Based – Cash Credit	Long Term	116.00	IVR BBB-/ 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).

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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
Term Loan	--	--	June, 2024	381.17	IVR BBB-/ Stable
Cash Credit	--	--	-	116.00	IVR BBB-/ 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-GMSugar-dec23.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 www.infomerics.com.