K.M. Sugar Mills Limited

May 14, 2024

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities – Term Loan	37.85 * (Reduced from Rs.50.00 crore)	IVR A-; Stable (IVR Single A Minus with Stable outlook)	Reaffirmed	Simple
Long Term Bank Facilities – GECL	9.09 * (Reduced from Rs.15.00 crore)	IVR A-; Stable (IVR Single A Minus with Stable outlook)	Reaffirmed	Simple
Long Term Bank Facilities – Cash Credit	200.00	IVR A-; Stable (IVR Single A Minus with Stable outlook)	Reaffirmed	Simple
Long Term Bank Facilities – Cash Credit	50.00	IVR A-; Stable (IVR Single A Minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities – Bank Guarantee	7.00	IVR A2+ (IVR A Two Plus)	Reaffirmed	Simple
Total	**303.94 (Rupees Three hundred and three crore and ninety-four lakhs only)**			

**Outstanding as on April 14, 2024*

Details of Facilities are in Annexure 1

Detailed Rationale

The assignment and reaffirmation of the ratings to the bank facilities of K.M. Sugar Mills Limited (KMSML) continue to derive comfort from its experienced promoters and management, satisfactory financial risk profile of the company marked by healthy debt protection metrics and favourable policy framework. These rating strengths are, however, remain constrained by working capital intensive nature of its operations, exposure to group companies, exposure of the business to vagaries of nature, exposure to risk related to government regulations and cyclical nature of the sugar industry.

Key Rating Sensitivities:

Upward factors

- Improvement in cane crushing levels and recovery rate, along with favourable demand supply dynamics, firm sugar prices over a sustained period and consequent improvement in profitability and debt coverage metrics

- Improvement in capital structure with improvement in overall gearing to below 1.00x

Downward Factors

- Decline in the cane crushing volumes or recovery rate or an increase in the cane prices resulting in deterioration of profitability and debt coverage metrics
- Any unplanned capex leading to moderation in the capital structure marked by deterioration in overall gearing ratio to over 2x
- Deterioration in working capital management leading to stretch in liquidity

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. He is Managing Director of the Company. Mr. Sanjay Jhunjhunwala, who has business experience of over two decades, is Joint Managing director in the company. He looks after commercial operations and the distillery business.

Improvement in top line; albeit moderation in profit margins in FY2023 and 9MFY2024

KMSM's total operating income (TOI) increased from Rs.548.34 crore in FY2022 to Rs.575.52 crore in FY2023 driven by increase in revenue from sugar segment. Also, the commencement of production of doubled refined sugar from December 2022 onwards fetches higher realisations, fuelled the increase in total revenue in FY2023. Despite increase in top line, EBITDA margin decreased from 13.37% in FY2022 to 8.63% in FY2023 due to significant increase in cane prices by Rs.25/quintal in season 2021-22. The increase in raw material prices cannot be completely passed on to the consumers since the Minimum Support Price (MSP) of sugar is fixed by the Government. Further, there was a decrease in recovery from 11.40% in FY2022 to 10.87% in FY2023 which added to the decrease in operating margin in FY2023. Consequently, PAT margin also moderated from 7.43% in FY2022 to 3.96% in FY2023 leading to moderation in gross cash accruals from Rs.55.34 crore in FY2022 to Rs.39.98 crore in FY2023. The company achieved a TOI of Rs.534.23 crore during 9MFY2024 as against a TOI of Rs.484.96 crore during 9MFY2023 driven by increase in sale of both sugar and ethanol manufactured by the company. The EBITDA margin moderated from 10.36% during 9MFY2023 to 8.40% during 9MFY2024 since in FY2023 the company had sold export quota for exchange with domestic quota of other sugar mill and the amount received on sale of export quota was accounted under "Other operating revenue". This was an onetime gain due to which the operating margin during 9MFY2023 was comparatively higher. Consequently, PAT margin also moderated from marginally from 4.59% during 9MFY2023 to 3.79% during 9MFY2024. However, due to the high amount of depreciation provision, gross cash accruals increased from Rs.33.40 crore during 9MFY2023 to Rs.37.30 crore during 9MFY2024. The company is estimated to achieve a top line of more than ~Rs.650.00 crore for FY2024.

Moderate capital structure coupled with satisfactory debt coverage indicators

The capital structure of the company stood moderate with long term debt equity ratio and overall gearing of 0.36x and 1.25x respectively as on March 31, 2023, as against 0.21x and 1.17x respectively as on March 31, 2022. The marginal moderation in gearing in FY2023 is due to significant increase in term loan in FY2023 consequent to installation of refinery for production of doubled refined sugar which commenced production from December 2022 onwards. The cost of the project was Rs.72.00 crore which was funded through term loan of Rs.50.00 crore and the balance through internal accruals. With decrease in EBITDA, ICR though moderated from 6.22x in FY2022 to 3.59x in FY2023 yet remained comfortable. Total debt to GCA moderated from 4.05x as on March 31, 2022, to 6.70x as on March 31, 2023. Total indebtedness as reflected by TOL/TNW stood comfortable at 2.00x as on March 31, 2023. However, the leverage ratios are estimated to improve in FY24 underpinned by scheduled repayment of term loans and accretion of profit to reserves.

Favourable policy framework

The Government of India (GoI) has been supporting the sugar industry through various measures such as continuation of MSP, soft loans for clearing cane dues, interest subvention loans for ethanol capacity creation and expansion and remunerative prices for ethanol, resulting in improved domestic demand-supply balance. Additionally, the GoI has preponed the ethanol blending programme timeline to 2025 from 2030 for 20% mandatory blending of ethanol with petrol. All these measures of GOI will support the sugar producers.

Key Rating Weaknesses:

Working capital intensive nature of operations

Since sugar is an agro-based commodity, 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, high inventory period of 260 days and requirement of higher working capital along with high creditors days of 92 days in FY23.

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, precisely monsoons influence various operational structures for a sugar entity, such as the crushing period and sugar recovery levels.

Exposure to group company

The company has investments in its group company Sonar castings Ltd (SCL) through non-cumulative redeemable preference shares and has also extended corporate guarantee to the bank facilities of SCL. The business performance of SCL was average in FY23 and the company has incurred net loss. However, though Infomerics expects improvement in the business performance of SCL in the near term, the business performance of SCL will remain a key monitorable.

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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Policy of default recognition

Criteria – Complexity Level of Rated Instruments/Facilities

Liquidity: Adequate

The liquidity position of the company is adequate, marked by its sufficient cash accruals as against its repayment obligations. The Company's average fund based working capital limit utilisation stood moderate at ~62% for the last 12 months ended February 2024 indicate adequate buffer in its working capital limits. Further, the company has adequate gearing headroom on the back of its comfortable capital structure and a strong net worth of Rs.214.54 crore as on March 31, 2023. Furthermore, the company had free cash and cash equivalents to the tune of Rs.10.22 crore as on December 31, 2023, which is expected to support the liquidity profile of the company in the near to medium term. The current ratio of the company stood moderate at 1.04x as on March 31, 2023.

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 9,500 TCD, Distillery Plants of 50 KLPD, Ethanol and cogeneration plant of 25MW. Further, the company has its own baggase based Co-Gen Power plant with the capacity of 25MW of Motinagar, Faizabad, Uttar Pradesh. The company is supplying surplus power to the Uttar Pradesh Power Corporation Limited.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023	9M FY2024
	Audited	Audited	Unaudited
Total Operating Income	548.34	575.53	534.23
Total Income	558.25	586.89	539.69
EBITDA	73.29	49.69	44.90
PAT	41.47	23.21	20.43
Total Debt	224.16	267.87	-
Tangible Net worth	191.56	214.54	-
Adjusted Tangible Net worth	153.34	142.00	-
EBITDA Margin (%)	13.37	8.63	8.40

PAT Margin (%)	7.43	3.96	3.79
Overall Gearing Ratio (x)	1.17	1.25	-

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 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 2021-22	
					March 21, 2024	February 12, 2024	November 29, 2023	April 03, 2023	-	February 28, 2022	July 15, 2021
1	Term Loan	Long Term	37.85 ^ (Reduced from Rs.50.00 crore)	IVR A-/Stable	IVR A-/Stable	IVR A-; RWDI*	IVR A-; RWDI*	IVR A-/Stable	-	-	-
2	GECL	Long Term	9.09 ^ (Reduced from Rs.15.00 crore)	IVR A-/Stable	IVR A-/Stable	IVR A-; RWDI*	IVR A-; RWDI*	IVR A-/Stable	-	IVR A-/Stable	IVR BBB+/ Positive
3	Cash Credit	Short Term	200.00	IVR A-/Stable	IVR A-/Stable	IVR A-; RWDI*	IVR A-; RWDI*	IVR A-/Stable	-	IVR A-/Stable	IVR BBB+/ Positive
4	Cash Credit	Long Term	50.00	IVR A-/Stable	-	-	-	-	-	-	-
5	Bank Guarantee	Short Term	7.00	IVR A2+	IVR A2+	IVR A2+; RWDI*	IVR A2+; RWDI*	IVR A2+	-	IVR A2+	IVR A2

^Outstanding as on April 14, 2024

**Rating watch with developing implications*

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About Infomerics Ratings:

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
Term Loan	-	-	March 2026	15.97 *	IVR A-/Stable
Term Loan	-	-	September 2027	21.88 *	IVR A-/Stable
GECL	-	-	December 2025	9.09 *	IVR A-/Stable
Cash Credit	-	-	-	250.00	IVR A-/Stable
Bank Guarantee	-	-	-	7.00	IVR A2+

**Outstanding as on April 14, 2024*

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-KMSugar-may24.pdf

Annexure 3: List of companies/Entities considered for consolidated analysis: Not Applicable

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.