K.M. Sugar Mills Limited

November 29, 2023

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	265.00	IVR A-/RWDI (IVR Single A minus under Rating Watch with Developing Implications)	Reaffirmed and placed under Rating Watch with Developing Implications	Simple
Short-Term Bank Facilities	7.00	IVR A2+/RWDI (IVR A Two Plus under Rating Watch with Developing Implications)	Reaffirmed and placed under Rating Watch with Developing Implications	Simple
Total	**272.00**			
	(INR Two hundred and seventy-two crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of K.M. Sugar Mills Limited (JSL) is placed under rating watch with developing implications in view of fire incident in the factory at Masodha, Ayodhya, Uttar Pradesh on November 20, 2023. At present, the financial impact of the incident cannot be ascertained. However, since the company has already commenced production with 10MW turbine, loss seems to be on the lower side. In view of the same and based on pending assessment of insurance claim the ratings has been placed under Rating watch under developing implications. Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the said incident on the credit risk profile of the company are clear. Further, the ratings continues to derive comfort from experienced promoters and management, satisfactory financial risk profile marked by healthy debt protection metrics, implementation of capex and favourable policy framework. The ratings are, however, constrained by working capital intensive operations, exposed to vagaries of nature, exposure to risk related to government regulations and cyclical nature of the sugar business.

Key Rating Sensitivities:

Upward factors

- Improvement in cane crushing levels and recovery rate, along with favorable demand supply dynamics, firm sugar prices over a sustained period, and the consequent improvement in profitability and debt coverage metrics.
- Increase in extent of diversification in revenue stream along with geographical diversification.

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 adverse government regulations.
- Deterioration in working capital management leading to stretched 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 2 decades, is Joint Managing director in the company. He looks after commercial operations and the distillery business.

Satisfactory financial risk profile marked by healthy debt protection metrics

Total income of the company stood at INR 484.96 crore as of 9MFY23 and INR 548.34 crore in FY22. Operating margins & net profit margins stood at 10.70% & 4.65% respectively in 9MFY23. The debt protection metrics remained healthy in FY22 with ISCR at 6.22x and DSCR at 2.07x. The overall gearing ratio and long-term debt equity ratio stood at 1.17x & 0.21x respectively in FY22. The company utilizes around 10MW for captive & internal processes & balance 15MW is sold to Uttar Pradesh Power Corporation Ltd with a tenure till March 2027 providing long term revenue visibility.

Implementation of Capex

The Company has undertaken capex for modernization of its sugar manufacturing process by installing refinery equipment's for manufacturing refined sugar. The estimated cost of the project was Rs.71.23 crore which was funded by term loans of Rs.50.00 crore and internal cash accruals of Rs.21.23 crore. The project was completed and commissioned from December 01, 2022. The said capex will result in incremental benefits in terms of better margins on account of market demand for the refined sugar as it commands premium of Rs.30 to Rs.60 per quintal.

Favorable policy framework

The Government of India (GoI) has been supporting the sugar industry through various measures such as continuation of MSP, 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 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 days of 290 and requirement of higher working capital along with high creditors days of 119 days in FY22.

Exposed to vagaries of nature

Being an agro-based industry, the 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 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]

Liquidity: Adequate

The liquidity position of the Company is adequate marked by sufficient cash accruals as against its repayment obligations. The Company's average fund based working capital limit utilisation stood at ~81% for the last 12 months ended February 2023. Further, the company has adequate gearing headroom on the back of its comfortable capital structure as the TNW of the company stood at Rs.191.56 crore as on March 31, 2022. The current ratio of the Company stood at 1.19x as on March 31, 2022.The cash and cash equivalent stood at Rs.10.20 crore as on March 31, 2022.

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. Sugar Plant manufactures & sells 3 grades of sugar in Plant manufactures rectified spirit, special denatured spirit, ethanol &Sanitizer. The company has its own baggase based Co-Gen Power plant with the capacity25MW 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	31-03-2021	31-03-2023	H1FY2024
	Audited	Audited	Unaudited
Total Operating Income	548.34	575.53	420.34

EBITDA	73.29	49.69	41.70
PAT	41.47	23.21	17.74
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	9.92%
PAT Margin (%)	7.43	3.96	4.19%
Overall Gearing Ratio (x)	1.17	1.25	-
Interest Coverage Ratio (x)	6.22	3.59	4.48

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

(Rs. Crore)

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years				
		Type	Amount outstanding (Rs. Cr.)	Rating	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 Bank Facilities – GECL	Long Term	15.00	IVR A-; RWDI*	IVR A-/ Stable (April 03, 2023)	-	IVR A- /Stable (February 28, 2022)	IVR BBB+/ Positive (July 15, 2021)	IVR BBB+/ Stable (September 09, 2020)
2.	Fund Based Bank Facilities – Term Loans	Long Term	50.00	IVR A-; RWDI*	IVR A-/ Stable (April 03, 2023)	-	--	--	--
3.	Fund Based Bank Facilities – Cash Credit	Long Term	200.00	IVR A-; RWDI*	IVR A-/ Stable (April 03, 2023)	-	IVR A- /Stable (February 28, 2022)	IVR BBB+/ Positive (July 15, 2021)	IVR BBB+/ Stable (September 09, 2020)
4.	Non-Fund Based Bank Facilities – Bank Guarantee	Short Term	7.00	IVR A2+; RWDI*	IVR A2+ (April 03, 2023)	-	IVR A2+ (February 28, 2022)	IVR A2 (July 15, 2021)	IVR A2 (September 09, 2020)

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).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
GECL	--	--	December 2025	15.00	IVR A-; RWDI
Term Loan	--	--	March 2026	25.00	IVR A-; RWDI
Term Loan	--	--	September 2027	25.00	IVR A-; RWDI
Cash Credit	--	--	Revolving	200.00	IVR A-; RWDI
Bank Guarantee	--	--	--	7.00	IVR A2+; RWDI

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-KMSML-nov23.pdf

Annexure 3: List of companies 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.