Press Release

Loknete Marutrao Ghule Patil Dnyaneshwar Sahakari Sakhar Karkhana Ltd. (LMGPD)

February 24, 2023

Ratings:

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Facilities – Cash Credit	60.00 (Increased from 30.00)	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Proposed Long Term Fund Based Limit - Cash Credit	40.00 (Reduced from 70.00)	IVR BB+ /Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Total	**100.00 (Rupees Hundred crores only)**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The reaffirmation in the rating to the bank facilities of Loknete Marutrao Ghule Patil Dnyaneshwar Sahakari Sakhar Karkhana Ltd 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. The rating is however constrained by Stretched financial metrics in the past fiscals; recovery in profits in 9MFY2023 after a notable dip in FY2022, high year end working capital intensity inherent to the sugar business, cane availability contingent to water availability in the catchment area.

Key Rating Sensitivities:

Upward Factors:

• Increase in share of ethanol or largely by-products in the revenue mix thereby improving profitability

• Sustenance in capital structure and TOL/TNW

Downward Factors:

• Dip in operating income and/or profitability impacting the debt coverage indicators and subdued industry scenario affecting the society's manufactured products offtake.

• Substantial deterioration in operating cycle especially due to piling of inventory impacting the liquidity.

Key Rating Drivers with detailed description

Key Rating Strengths:

Location benefits with catchment area proximate to Jayakwadi dam

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 FY2022 due to low cane availability in the ensuing season on dampened rainfall in the previous season ultimately resulting in low sugar production.

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 RS and SDS while the power generated is broadcasted to the state electricity grid. The cooperative has PPA arrangements with MSEDCL 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 realization. Measures like the aforesaid collaboratively aid improvement the financials of the sugar companies.

Fluctuating revenues in the past fiscals although some improvement noted in current fiscals:

The revenue profile, typical sugar factory remains dominated by sugar revenues followed by lucrative distillery and power. While the revenues dipped in FY2022 on account of muted sugar sales on low cane availability in the ensuing season on dampened rainfall in the previous season ultimately resulting in low sugar production, the same is recovered in 9MFY2023 driven by increase in sugar volumes. The factory in the 9MFY2023 ended December 31, 2022, has achieved sales of 582.03 crores and expects healthy revenues in the coming fiscal as compared to the previous one (Rs. 499.05 crore).

Key Rating Weaknesses:

Stretched financial metrics in the past fiscals; recovery in profits in 9MFY2023 after a notable dip in FY2022:

The operating margins had remained subdued in past fiscals; however, they dipped significantly in FY2022 to 7.77% in FY22 from 16.85% in FY21 with the factory reporting a dip in sugar revenues and stock build up coupled with high cane procurement costs amidst almost stable fixed costs. The profits however have recovered in 9MFY2023 due to restoration of by-product sales; rescued the top line to an extent which has aided cost absorption. The operating margins thus stood at 7.43% while net profit margins have remained at 0.17%. Sustenance albeit improvement in profitability will be the key rating monitorable in the near term.

The overall gearing ratio stood at 2.82 times in FY22 as against 3.71 times in FY21. The interest coverage ratio stood stable at around 0.91x to 1.05 times in FY22. TOL/TNW improved to 4.95 times in FY22 when compared to 5.81 times in FY21.

During 9MFY23 the top line improved to Rs.582.08 crores as against Rs.499.05 crores in 9MFY22. The EBITDA stood at Rs.87.33 crores against Rs.38.27 crores, the PAT margin improved significantly to 6.71% in 9MFY23 from 0.15% in 9MFY22.

High year end working capital intensity inherent to the sugar business:

The working capital intensity, typical to the sugar industry remains high given the year end sugar stocks which also remains close to the end of the sugarcane crushing period. The operating cycle remained at 203 days as on March 31,2021 which improved at 87 days as on March 31,2022. While sugar sales in the recent fiscals remained regulated given the monthly stock release mechanism mandated by Government of India, its maintenance at optimal levels as also sale at remunerative realizations remains crucial to the liquidity of the cooperative.

Cane availability contingent to water availability in the catchment area:

The cane availability in a particular season remains the function of the water availability in the catchment. Constrained water availability in the previous season impacts the crushing volumes in the current season resulting in low sugar, molasses and power production. In such scenarios, sugar mills offer premiums to the farmers which may impact their contribution margins.

Analytical Approach: Standalone

Applicable Criteria:

Criteria of Rating Outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

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 manged by further fund contribution by the society members or a bridge loan. The free cash balance as on March 31,2022 stood at Rs. 2.54 crore while average working capital utilisation for the 12 months ended January 2023 remained at ~80%. LMGPD's continued focus on ethanol in the near term is likely to further increase the fund flows from operations aiding some liquidity buffer. The current ratio stands at 0.77 for FY2022.

About the Company:

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.

Financials Standalone

(Rs. crore)

For the year ended/ As On	31-03-2021	31-03-2022
	(Audited)	**(Audited)**
Total Operating Income	335.34	736.33
EBITDA	60.04	57.23
PAT	4.03	1.03
Total Debt	519.10	407.13
Tangible Net-worth	140.01	144.34
Ratios		
EBITDA Margin (%)	16.85	7.77
PAT Margin (%)	1.13	0.14
Overall Gearing Ratio (x)	3.71	2.82

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (Dec 31, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Facilities – Cash Credit	Long Term	60.00	IVR BB+/ Stable	IVR BB+/ Stable	--	--
2.	Proposed Long Term Fund Based Limit - Cash Credit	Long Term	40.00	IVR BB+/ Stable	IVR BB+/ Stable	--	--

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

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

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Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Facilities –Cash Credit	--	--	--	60.00	IVR BB+/ Stable
Proposed Long Term Fund Based Limit - Cash Credit	--	--	--	40.00	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-Loknete-feb23.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/.