Shri Gurudatt Sugars Limited

January 12, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term bank facilities	785.34	IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Assigned	Simple
Short Term bank facilities	2.00	IVR A3+ (IVR A Three Plus)	Assigned	Simple
Total	**787.34**			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Shri Gurudatt Sugars Limited (SGSL) draws comfort from extensive experience of its promoters in sugar industry and integrated nature of its operations with favourable plant location. The ratings also note improvement in its financial performance in FY22 and in H1FY23. Further, the company's recent capex towards enhancement of its distillery capacity from 60 KLPD to 200 KLPD is expected to drive further growth in revenues and profitability. The enhancement of distillery unit capacity would enable SGSL to generate healthy cash flows and reduce its sugar inventory levels. Moreover, the ratings also derives comfort from the continued support from the government in the form of remunerative ethanol prices and interest subvention in loans availed for ethanol capacity expansion. However, these rating strengths remain constrained due to SGSL's leveraged capital structure and moderate debt protection metrics. The ratings also considers working capital-intensive nature of its operations, exposure to agro-climatic risks, cyclical nature of sugar business and exposure to risk related to government regulations. The outlook is positive in view of expected improvement in its operational performance driven by benefits emanating from recent capex towards distillery unit capacity enhancement.

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 with improvement in overall gearing to below 2x and rise in interest coverage ratio to over 2x

- 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
- Impairment in the capital structure with moderation in overall gearing to over 3x
- Increase in operating cycle impacting 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 financial performance in FY22 and in H1FY23**
  The company gathers most of its revenues from sugar sales followed by distillery products (Ethanol). Ethanol segment of the company started operating during FY21 and witnessed gradual stabilization in FY22. Based on healthy demand of Ethanol, the company has increased its distillery unit capacity from 60 KLPD to 200 KLPD in October 2022. SGSL has reported ~7% CAGR over FY20-FY22 in its total operating income. The company's total operating income increased in FY22 by ~11% on a y-o-y basis to Rs.506.80 crore mainly supported by better average sugar realizations and higher revenue from sale of distillery products. The company has generated revenue of ~Rs. 137 crore against Rs.12.45 crore in FY21 from distillery unit and that from the cogeneration unit of Rs. 24.66 crore in FY22. SGSL's forward integration into distillery business has provided boost to its operating margin. The EBIDTA margin improved to 16.83% in FY22 from 13.74% in FY21. Consequently, PAT

margin and cash accruals also improved. In H1FY23, the company achieved revenue of ~Rs.332 crore.

- **Revenue to be driven by Ethanol segment going forward**

  Ethanol segment of the company started operating during FY21 and witnessed gradual stabilization in FY22. Based on healthy demand of Ethanol, the company has increased its distillery unit capacity from 60 KLPD to 200 KLPD in October 2022. Going forward the revenue and profitability of the company is expected to be driven by higher revenue from Ethanol segment. Moreover, there is a recent price hike in Ethanol prices which is also expected to boost its revenue and profitability.

- **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.

Key Rating Weakness:

- **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 at 325 days in FY22 (PY:302 days). The working capital requirements are largely funded by credit period availed and bank borrowings.

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

  The company has received GECL loan sanction of ~Rs. 56 crore under the Government's ECLG Scheme during FY22. The drawdown of this additional debt along with an increase in working capital borrowings led to an increase in overall debt levels in FY22. Consequently, overall gearing ratio moderated from 2.49x as on March 31, 2021 to 2.53x as on March 31, 2022. However, equity infusion of Rs. 21 crore in FY22 and accretion to reserves provided some support to the capital structure. Moreover, interest coverage improved from 1.47x in FY21 to 1.66x in FY22 driven by higher EBITDA level.

- **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.

- **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 of assigning Rating Outlook

Liquidity Position: Adequate

The liquidity profile of the company is expected to remain adequate with gross cash accruals expected to be in range of Rs.80 crore to Rs. 114 crore as against the expected debt repayments of Rs. 28 crore to Rs.65 crore during FY23 to FY25. The average working capital utilisation for the 12-month period ending November 2022 remained at ~39% which provides liquidity comfort. Also, liquidation of the sugar stock at remunerative realisation also remains crucial for the liquidity of the sugar mills.

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	31-03-2021	31-03-2022
	Audited	Audited
Total Operating Income	457.90	506.80
EBITDA	62.90	85.28
PAT	11.20	19.13
Total Debt	410.27	518.24
Tangible Net worth	164.78	205.07
EBITDA Margin (%)	13.74	16.83
PAT Margin (%)	2.40	3.73
Overall Gearing Ratio (x)	2.49	2.53

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loans*	Long Term	343.84	IVR BBB /Positive	-	-	-
2.	Fund based working capital	Long Term	441.50	IVR BBB /Positive	-	-	-
3.	Bank Guarantee	Short term	2.00	IVR A3+	-	-	-
4.	Issuer Rating	Issuer	NA	IVR BBB [Is]/Positive (Dec 13, 2022)	-	-	-

*Outstanding as on 30.11.2022

Name and Contact Details of the Rating Analyst:

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

About Infomerics:

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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 / Outlook
Term Loans	-	-	Aug 2031	343.84	IVR BBB /Positive
Fund based working capital	-	-	-	441.50	IVR BBB /Positive
Bank Guarantee	-	-	-	2.00	IVR A3+
Total				**787.34**	

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/Len-Gurudatt-Sugars-jan23.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.