Press Release

Loknete Marutrao Ghule Patil Dnyaneshwar Sahakari Sakhar Karkhana Ltd.

December 21, 2021

Ratings

Instrument / Facility	Ratings	Rating Action
Issuer Rating	IVR BB+ (Is)/Stable Outlook (Pronounced as IVR Double B plus with Stable Outlook)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The assigned rating factors in long operational history of the entity and the established relationships with farmers in its catchment area resulting in continuous supply of cane resulting in adequate operational efficiencies across segments. The rating also factors in the location benefits on being proximate to Jayakwadi dam and forwardly integrated with power and distillery operations which also provide the necessary buffer to the profitability The rating also factors the benefits from the various fiscal incentives offered by the government to the sugar industry. Although the co-operative society had fluctuating revenues in the past fiscals the revenue in current fiscal is likely to show some improvement over previous year. However, the rating remains constrained with the stretched financial metrics in the past fiscals as also high year end working capital intensity inherent to the sugar business. Further, the cane availability in a particular season remains the function of the water availability in the catchment area; thus any constrain in cane procurement may have a significant impact on the dynamics of the sugar mill.

Key Rating Sensitivities:

Upward Factors

- Increase in share of ethanol or largely by-products in the revenue mix thereby improving profitability to an extent
- Sustenance, albeit improvement 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.

List of 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 at 71% in the previous season, subdued cane availability in SY2020 due to low cane availability in the ensuing season on dampened rainfall in the previous season ultimately resulting in low sugar production had impacted the utilization levels which remained lower than that achieved in SY2021.

- **Forward integration into distillery and power cogen operations; 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. Infomerics will continuously follow the developments in the sugar industry and evaluate their impact on 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 FY2020 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 have recovered in FY2021 driven by increase in sugar volumes. The factory in the 7MFY2022 ended October 30,2021 has achieved sales of 427.08 crores and expects healthy revenues in the coming fiscal as compared to the previous one (Rs. 135.47 crore).

Key Rating Weaknesses

- **Stretched financial metrics in the past fiscals; recovery in profits in FY2021 after a notable dip in FY2020**

The operating margins had remained subdued in past fiscals; however, they dipped significantly in FY2020 with the factory reporting an operating loss on dip in sugar revenues and stock build up coupled with high cane procurement costs amidst almost stable fixed costs. Further, high interest outgo had also resulted in losses at levels. The profits however have recovered in FY2021 due to restoration of byproduct sales; rescued the topline to an extent which has aided cost absorption. The operating margins thus stood at 14.85% while net profit margins have remained at 6.98%. Sustenance albeit improvement in profitability will be the key rating monitorable in the near term.

Given the substantial losses in FY2020 had impacted the networth in FY2020 and FY2021. As a result, the gearing remained at 1.61 times and 1.83 times as on March 31,2020 and March 31,2021. The TOL/TNW remained at 2.28 times and 2.86 times in FY2020 and FY2021. The coverage indicators also remained under pressure in FY2020 and FY2021 with interest coverage at -0.61 times and 1.16 times respectively while TD/EBIDTA remaining at -33.18 and 10.43 times in FY2020 and FY2021 respectively.

- **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 320 days as on March 31,2020 which remained at 341 days as on March 31,2021 given substantial liquidation of the sugar inventory also reflected in the increased revenues in FY2021. 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:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

<u>Liquidity</u> – Adequate

The company liquidity is expected to remain adequate with projected cash accrual generation to remain satisfactory to cover the scheduled debt repayments for the period FY2022 to FY2024 which would remain about Rs. 31.00 to 52.00 crore in addition to no planned term debt or major cash outgo in the near term providing some comfort. The free cash balance as on March 31,2021 stood at Rs. 3.59 crore while average working capital utilisation for the 12 months ended September 2021 remained at ~67%. LMGPDSSKL's continued focus on ethanol in the near term is likely to further increase the fund flows from operations aiding some liquidity buffer. Further, no significant debt funded availment provides for the liquidity to an extent.

<u>About the Company</u>

Loknete Marutrao Ghule Patil Dnyaneshwar Sahakari Sakhar Karkhana Limited a co-operative 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: (Rs. Crore)

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	365.09	335.34
EBITDA	-13.17	49.78
PAT	-32.54	4.03
Total Debt	436.95	519.10
Tangible Net Worth	271.93	284.30
EBITDA Margin (%)	-3.61	14.85
PAT Margin (%)	-8.78	1.20
Overall Gearing Ratio (x)	1.61	1.83

***Classification as per Infomerics' standards**

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Facilities	Current Ratings (Year 2021-22)	Rating History for the past 3 years		
		Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Issuer Rating	IVR BB+ (Is)/Stable	--	--	--

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.

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About Infomerics:

Press Release

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Issuer Rating	-	-	-	-	IVR BB+(Is)/Stable

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

Annexure 3: Facility wise lender details: Not applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities: Not Applicable

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