Shri Gurudatt Sugars Limited

September 01, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term bank facilities	711.12	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Revised from IVR BBB/ Positive (IVR Triple B with Positive Outlook)	Simple
Short Term bank facilities	2.00	IVR A2 (IVR A Two)	Revised from IVR A3+ (IVR A Three Plus)	Simple
Issuer Rating	NA	-	Withdrawn	-
Total	**713.12**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Shri Gurudatt Sugars Limited (SGSL) takes into account healthy growth in its scale of operations supported by capacity expansion in the distillery segment from 60 KLPD to 200 KLPD. Further, the ratings continue to derive comfort from extensive experience of its promoters in sugar industry and integrated nature of its operations with favourable plant location. Moreover, the ratings also derive comfort from 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.

Infomerics has withdrawn the Issuer Rating assigned to Shri Gurudatt Sugars Limited (SGSL) with immediate effect at the request of the company. The rating is withdrawn in accordance with Infomerics' policy on withdrawal.

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 and debt protection metrics on a sustained basis
- 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 revenues; moderation in profit margins in FY23 however reversal witnessed in Q1FY24**
  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. The company's total operating income increased in FY23 by ~39% on a y-o-y basis to Rs. 703.56 crore mainly supported by an increase in revenue from sale of distillery products and sugar.

The company has generated revenue of ~Rs. 270 crore in FY23 against Rs.137 crore in FY22 from its distillery unit. The company could not derive desirable efficiency level from its enhanced capacity of distillery unit in FY23. The full-fledged operations of the enhanced distillery unit could start from March 2023 only. Accordingly, EBITDA Margin has moderated from 16.83% in FY22 to 11.86% in FY23. Subsequently, PAT margin has also moderated from 3.73% in FY22 to 3.28% in FY23. Post initial teething problems, the operations have stabilized and the company has started reaping benefits of capex from Q1FY24. During Q1FY24, the company has achieved a revenue of ~Rs.200 crore with a PBT of ~Rs.26 crore and earned a EBITDA margin of ~23%.

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

  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.

- **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, though improved from 325 days in FY22 to 228 days in FY23.

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

  The overall gearing ratio stood at 2.45x as on March 31, 2023 against 2.53x as on March 31, 2022. Driven by lower finance cost, interest coverage ratio improved from 1.66x in FY22 to 1.86x in FY23. The total indebtedness of the company indicated by its TOL/TNW remained moderate at 3.25x as on March 31, 2023.
- **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

Policy on Withdrawal of Ratings

Liquidity Position: Adequate

The liquidity profile of the company is expected to be adequate with gross cash accruals expected to be in range of Rs.90 crore to Rs.134 crore as against the expected debt repayments of Rs.43 crore to Rs.65 crore during FY24 to FY26. The average working capital utilisation for the 12 month period ending June 2023 remained at ~36% which provides liquidity comfort. Also, liquidation of the sugar stock at remunerative realisations also remains crucial to 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	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	506.80	703.56
EBITDA	85.28	83.45
PAT	19.12	23.38
Total Debt	518.24	592.15
Tangible Net worth	205.06	241.47

For the year ended* / As On	31-03-2022	31-03-2023
EBITDA Margin (%)	16.83	11.86
PAT Margin (%)	3.73	3.28
Overall Gearing Ratio (x)	2.53	2.45

**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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	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.	Term Loans*	Long Term	354.62	IVR BBB+ /Stable	IVR BBB /Positive (Jan 12, 2023)	-	-
2.	Fund based working capital	Long Term	356.50	IVR BBB+ /Stable	IVR BBB /Positive (Jan 12, 2023)	-	-
3.	Bank Guarantee	Short term	2.00	IVR A2	IVR A3+ (Jan 12, 2023)	-	-
4.	Issuer Rating	Issuer	NA	Withdrawn	IVR BBB [Is]/Positive (Dec 13, 2022)	-	-

*Outstanding as on 31.05.2023

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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	354.62	IVR BBB+ /Stable
Fund based working capital	-	-	-	356.50	IVR BBB+ /Stable
Bank Guarantee	-	-	-	2.00	IVR A2
Total				**713.12**	

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-sep23.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.