



Rating Rationale

K. M. Sugar Mills Ltd.

05July2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 252.95 Crores of K. M. Sugar Mills Ltd.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	205.95	Long Term	BWR BBB (Pronounced as BWR Triple B) Outlook: Stable
Non Fund Based	7.00		
Fund Based	40.00	Short Term	BWR A3+ (Pronounced as BWR A Three Plus)
Total	252.95	Rupees Two Hundred Fifty Two crores and Ninety Five Lakhs only	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings: Assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon audited financial results upto FY19, audit report for FY18, projected financials for FY20 and FY21, publicly available information and information/clarification provided by the management of the company and their representatives.

The company is engaged in manufacturing of sugar, distillery products and power generation with plant located in Faizabad, U.P. Capacity of the sugar plant is 9000 TCD, distillery is 45 KLPD and cogeneration plant is 25 MW. The rating derives strength from the experience of the promoters and management of the company, improvement in financial risk profile of the company as indicated by financial leverage, debt protection and profitability, diversification of business in terms of revenue streams and new markets and sugar recovery rate. The ratings are, however, constrained by deterioration in cash conversion cycle, business cyclicality, agro-climatic factors and high regulations in the industry.

Economics of sugar production is critically dependent on cane availability (which is in turn dependent on



agro-climatic factors), cane pricing (which in turn are controlled by government and subject to political risks), operational leverage (although large plants benefit from economies of scale, but may find difficult to recover fixed costs during low cane availability), operational efficiency in terms of recovery rate and forward and backward linkages.

Liquidity: Moderate: During FY20, total term loans of Rs.36.94 crs were sanctioned by lenders for facilitating payment of cane dues to farmers for sugar season 2018-19. The loan is under moratorium period upto May 2020 and repayment is to begin w.e.f June 2020. Term Loan of Rs.47.76 crs was sanctioned by lenders in November 2018 under SEFASU Scheme 2018 and is under repayment holiday upto June 2019. Repayment of this loan is to begin w.e.f July 2019 in monthly instalments of Rs.0.80 crs per months turning into additional repayment liability of Rs.9.60 crs per annum for the next five years. For current FY20, the company has projected accruals of Rs.43.43 crs (PAT+Depreciation) that would be utilised to honour debt repayment obligations. During March 2019 and April 2019, additional working capital limits of Rs.72 crs were sanctioned to the company for enabling payment of cane arrears and other working capital requirements. Cane arrears upto sugar season 2017-18 were paid and cane arrears of Rs.71.40 crs for sugar season 2018-19 are yet to be paid. Cash conversion cycle has deteriorated to 146 days in FY19 from 73 days in FY18 primarily on account of increase in inventory holding period that has increased to 261 days in FY19 from 164 days in FY18. Total non-current investments of Rs.11.06 crs were made in subsidiaries/associate concerns during FY19 against investments of Rs.7.21 crs during FY18.

Cash Budget SS 2018-19: For the sugar season, spanning over Oct 2018 to September 2019, peak monthly deficit of Rs.98.43 crs is projected in the month of March 2019, whereas the highest surplus of Rs.44.36 crs is projected for the month of July 2019. All existing cane payments are projected to be repaid by June 2019 and repayment of SEFASU loan beginning July 2019 onwards.

Rating Sensitivities: Rating is sensitive to adverse liquidity situation owing to (i) further deterioration in cash conversion cycle (currently at 130 days during FY19) that would increase working capital requirements. Rating is also sensitive to total operating revenues that stand at Rs.398.30 crs during FY19 and gearing ratio TOL/TNW that is at 2.98x as on 31.03.2019. Any deterioration in the revenues, gearing ratio or the operational parameters is likely to result in a rating action.

Description of Key Rating Drivers

Credit Strengths:

- (1) Experienced promoters and management:** L K Jhunjhunwala, aged 77 years is the Chairman of the company with over 57 years experience in Sugar business. Aditya Jhunjhunwala, aged 49 years and MD of the company has over 27 years in this line of business. Currently, Aditya handles sugar and power businesses. Sanjay Jhunjhunwala, aged 44 years and MBA from UK has business experience of 20 years and is JMD in the company. He looks after commercial operations and distillery business. S C Aggarwala, aged 58 years in an engineering graduate and has over 35 years business experience. He is ED in the company.



- (2) **Improved financial risk profile:** Total debt/TNW and TOL/TNW, key indicators of gearing profile, are 1x and 2.98x respectively during FY19 against 1.17x and 2.47x respectively during FY18. ISCR and DSCR, indicating debt protection metrics, stood at 6.07x and 2.57x respectively during FY19 against 1.54x and 1.46x respectively during FY18. Operating profit margins and net profit margins have improved from 3.66% and 4.02% respectively during FY18 to 11.61% and 6.11% respectively during FY19. However, it may also be noted that in such a capital intensive industry, improvement in profitability is reported on the back of substantial increase in inventory holding levels.
- (3) **Business Diversification:** During FY19, almost 76% of the revenue is generated from sugar sales and 13% revenues from the sale of industrial alcohol. Rest is contributed by sale of power, bagasse and bio compost. During FY19, the company has moved to exports of sugar and total exports have contributed to almost 3.67% of total revenues.
- (4) **Improvement in sugar recovery rate:** During 2018-19, capacity utilization and recovery rate is 82.38% and 11.12% respectively. During 2017-18, the same stood at 83.04% and 9.75% respectively. Average sugar recovery rate in U.P was 11.42% during cane season 2018-19 and 10.84% during cane season 2017-18.

Credit risks:

- (1) **Deterioration in cash conversion cycle:** Cash Conversion cycle has deteriorated to 146 days in FY19 from 73 days in FY18 primarily on account of increase in inventory holding period that has increased to 261 days in FY19 from 164 days in FY18.
- (2) **High Regulations:** Industry high regulated with inability in passing increased costs to buyers and lack of control over input prices.
- (3) **Agro Climatic factors:** Sugarcane is the key input into the business. Sugarcane is a Kharif crop, production of which depends on monsoons. Any adversity on the timely and adequacy of rainfall, given highly uneven pattern of rainfall observed in the last few years, would drastically affect the availability and price of Sugarcane thereby affecting profitability of the business.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **K. M. Sugar Mills Ltd.**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating



outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

K M Sugar Mill Ltd (KMSL), is incorporated on 17th December 1971 with its current registered office at 11 Moti Bhawan, Collector Ganj, Kanpur, UP, and is engaged in the production of sugar, distillery products and generation of electricity, with plant located in Faizabad of U.P. L K Jhunjunwala, Aditya Jhunjunwala, Sanjay Jhunjunwala and S C Aggarwala are the directors in the company. Other directors are Hemantpat Singhania, Satish Kumar Gupta, Ram Shanker Shukla, Madhu Mathur and Surendra Bahadur Singh.

Company's Financial Performance

Key Parameters	Units	2018 (A)	2019(A)
Operating Revenue	₹ Cr	469.78	398.30
EBITDA	₹ Cr	17.22	46.26
PAT	₹ Cr	18.87	24.35
Tangible Net worth	₹ Cr	84.37	108.61
Total Debt/Tangible Net worth	Times	1.17	1.00
Current Ratio	Times	1.06	1.14

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2018	2017	2016
1	Fund Based	Long Term	205.95	BWR BBB (Pronounced as BWR Triple B) Outlook: Stable	N.A	N.A	N.A
2	Non Fund Based		7.00				



3	Fund Based	Short Term	40.00	BWR A3+ (Pronounced as BWR A Three Plus)	N.A	N.A	N.A
	Total		252.95	₹ Two Hundred Fifty Two crores and Ninety Five Lakhs Only			

Outstanding ratings with other CRA (if any): Acuite BBB-/A3 (Stable) for Rs.129.50 crs (07th March 2019, 12th Feb 2019, 19th June 2018, 15th Feb 2018)

ANNEXURE: Description of Bank Loans

Bank	Facility	Tenure	Sanctioned Amount	Amount rated
Punjab National Bank, Mid Corporate, Lucknow	Cash Credit	Long Term	49.00	49.00
	Term Loan	Long Term	36.94	13.94
State Bank of India, Commercial branch, Gokhale Marg, Lucknow	CC/WCDL/BD	Long Term	52.25	52.25
	WHR (4- months)	Short Term	40.00	40.00
	Term Loan -1	Long Term	47.76	47.76
	Term Loan -2	Long Term	36.94	23.00
	Bank Guarantee	Long Term	7.00	7.00
Distt. Co-op. Bank, Faizabad	Cash Credit	Long Term	20.00	20.00
Total			289.89	252.95

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)



- [Short Term Debt](#)

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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