

Press Release

K M Sugar Mills Limited

(KMSML)

15 February, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 129.50 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short term rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs 129.50 crore bank facilities of K M Sugar Mills Ltd. (KMSML). The outlook is '**Stable**'.

K M Sugar Mills Ltd (KMSML) was established in the year 1971 and in 1974 the company became a public limited company under the management of Jhunjhunwalas family. The Company top management includes Mr. L.K. Jhunjhunwala (Chairman), Mr. Aditya Jhunjhunwala (Managing Director), and Mr. Sanjay Jhunjhunwala (Joint Managing Director).

The company is into the business of manufacturing of sugar with installed capacity of 9000 TCD. It also has distillery, ethanol and cogeneration plant located at faizabad, Uttar pradesh. The company has received the ISO 9001:2000 certification for manufacture of white sugar.

Key Rating Drivers

Strengths

- **Experience management and established track record**

The promoters of the company have more than two decades of experience in sugar industry and its chairman Mr. L.K. Jhunjhunwala is the former President of U.P. Sugar Mills Association. The promoters have gained good insight about the industry over the years and have developed healthy customer and suppliers relations.

- **Moderate financial risk profile**

The net worth of the company stood at Rs. 63.47 crore as on 31 March, 2017 compared to Rs. 34.93 crore as on 31 March, 2016 due plough back of profits. The gearing stood moderate at 2.65 times as on 31 March, 2017 and 2.73 times as on 31 March, 2016. The interest coverage ratio (ICR) has significantly improved to 6.94 times in FY2017 as against 2.14 times in FY2016. The DSCR improved to 1.47 times in FY2017 compared to 1.00 times in FY2016.

- **Improving Operating and Profitability Margins**

Though the operating income of the company has reduced to Rs. 347.10 crores in FY2017 as compared to Rs. 358.19 crores in FY2016, EBITDA margins have improved to 16.31 percent in FY2017 from 9.86 percent in FY2016. PAT margins have also improved to 8.14% in FY2017 as compared to 3.27% in FY2016 on account of decrease in interest cost on borrowed funds. The ability of the company to maintain its margins and debt protection metrics will remain key rating sensitivity factors.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive marked by high Gross Current Assets days of 274 days in FY2017 and which has increased from 201 days in FY2016. The high GCA days are due to inventory days of 284 in FY2017 which has increased from 174 days in FY2016.

- **Cyclicality associated with sugar industry**

The operations of company is dependent on sugarcane production which highly dependent on the monsoon and prices prevailing in the alternative crops such as rice and wheat. The sector is also marked by the presence of several other players which lead to intense competition from the other players.

- **Susceptibility of profitability to volatility in material prices**

Sugarcane and the other by products manufactured by the company remain extremely sensitive to fluctuations to commodity prices thereby impacting the overall revenue and profitability profile of the company. Sugarcane production is highly dependent on the monsoon and a fluctuation in FRP (Fair Remunerative Price) will have a bearing on the overall revenue and profitability.

Analytical Approach

For arriving at the ratings, SMERA has considered the standalone business and financial risk profiles of KMSML.

Outlook: Stable

SMERA believes KMSML will maintain its moderate business risk profile in the medium term on the back of established operations and long standing experience of the promoters in the business. The outlook may be revised to 'Positive' in case of improvement in profitability and capital structure while increase in the scale of operations. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 * (Actual)
Operating Income	Rs. Cr.	347.10	358.19	555.92
EBITDA	Rs. Cr.	56.62	35.32	35.83
PAT	Rs. Cr.	28.26	11.70	7.44
EBITDA Margin	(%)	16.31	9.86	6.45
PAT Margin	(%)	8.14	3.27	1.34
ROCE	(%)	25.25	17.91	27.60
Total Debt/Tangible Net Worth	Times	2.65	2.73	8.50
PBDIT/Interest	Times	6.94	2.14	2.63
Total Debt/PBDIT	Times	2.88	2.64	3.92
Gross Current Assets (Days)	Days	274	201	168

*The figure for FY2015 is for 18 months of operations.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

Not Any

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing entities- <https://www.smera.in/criteria-manufacturing.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash credit	Not Applicable	Not Applicable	Not Applicable	100.51	SMERA BBB-/ Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	17.88	SMERA BBB-/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	SMERA A3
Proposed Facility	Not Applicable	Not Applicable	Not Applicable	9.11	SMERA BBB-/ Stable

Contacts

Analytical	Rating Desk
<p>Suman Chowdhury President - SMERA Bond Ratings Tel: 022-67141107 suman.chowdhury@smera.in</p> <p>Rupesh Patel Analyst - Rating Operations Tel: 022-67141320 rupesh.patel@smera.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in</p>

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