

Press Release

K M Sugar Mills Limited

June 19, 2018



Rating Assigned

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

* Refer Annexure for details

Corrigendum: In the Press Release published on February 15, 2018 the 'Analytical approach' for arriving at the rating mentioned was erroneous. The change is incorporated in this press release.

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE 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 Jhunjhunwala family. The company's 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

- **Experienced 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 to 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 crore in FY2017 as compared to Rs.358.19 crore 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 percent in FY2017 as compared to 3.27 percent 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 in FY2017, 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.

• Cyclicalities associated with sugar industry

The operation of company is dependent on sugarcane production which is 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 other by-products manufactured by the company remain extremely sensitive to fluctuations in 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, Acuité has consolidated the financial and business risk profiles of K M Sugar Mills Limited (KMSML) and its subsidiary viz. M/s K.M. Energy Private Limited.

Outlook: Stable

Acuité believes that 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 NetWorth | 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 |

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

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

None

Any other information

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 | ACUITE BBB- / Stable (Assigned) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 17.88 | ACUITE BBB- / Stable (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3 (Assigned) |
| Proposed Facility | Not Applicable | Not Applicable | Not Applicable | 9.11 | ACUITE BBB- / Stable (Assigned) |

Contacts

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About Acuité Ratings & Research:

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