

Press Release

K M Sugar Mills Limited

March 07, 2019



Rating Reaffirmed and Withdrawn

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 129.50 crore bank facilities of K M Sugar Mills Limited (KMML). The outlook is '**Stable**'.

Acuité, wide its press release dated February 12, 2019 had placed the long term rating of 'ACUITE BBB-' and short term rating of 'ACUITE A3' on 'Rating watch with developing implications' in response to company's intimation to exchanges relating the operation in the distillery unit located at Moti Nagar in Faizabad (Uttar Pradesh) has been closed. As per the subsequent discussions with the management, Acuité has been informed that closure of distillery had been temporary event and will resume its operations shortly. Acuité is now reaffirming the long term rating of 'ACUITE BBB-' and the short term rating of 'ACUITE A3' on the bank facilities of KMML as closure of distillery is not considered as a major issue and performance of the company is in line with the expectation.

KMML, based at Uttar Pradesh, was established as private limited company in 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 tons of cane per day (TCD). It also has distillery, ethanol and cogeneration plant located at Faizabad (Uttar Pradesh). The company has also received the ISO 9001:2000 certification for manufacture of white sugar.

Analytical Approach

Acuité has considered the consolidation business and financial risk profiles of KMML and its subsidiaries viz. M/s K.M. Energy Private Limited to arrive at the rating. The consolidation is due to common management and financial synergies within the group. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management and established track record**

KMML has established presence since 1971 in sugar industry and has established track record of over two decades. 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. The company is well supported by a second line of skilled management.

- **Moderate financial risk profile**

The financial risk profile is marked by moderate net worth, comfortable gearing and healthy debt protection metrics. The net worth of the company stood at Rs.84.37 crore as on 31 March, 2018 as compared to Rs.65.50 crore as on 31 March, 2017 due to plough back of profits. The gearing (debt-equity) stood comfortable and improved to 1.17 times as on 31 March, 2018 as compared to 2.16 times as on 31 March, 2017 due to decline in long term loans. The interest coverage ratio (ICR) stood comfortable at 4.76 times in FY2018 as against 5.76 times in FY2017. Debt Service Coverage Ratio (DSCR) stood low at 1.44 times in FY2018 as compared to 1.59 times in FY2017. The net cash accruals against total debt stood at a moderate 0.32 times in FY2018 and 0.33 times in FY2017.

Weaknesses

- **Declining margins**

The operating margins of the company have declined to 10.16 percent in FY2018 as compared to 16.18 percent in FY2017. Further, PAT margins have also declined to 3.69 percent in FY2018 as compared to 10.87 percent in FY2017. The same is due to excess of sugar production in sugar season (SS) 2018 and reduction of selling price which has impacted the margins. The same has led to decline in net cash accruals to Rs.31.70 crore in FY2018 as compared to Rs.46.24 crore in FY2017.

- **Cyclicalities associated with sugar industry and diversification into unrelated business**

The company is engaged in sugar industry which is dependent on sugarcane production which is highly dependent on monsoon and realisations in alternative crops such as rice and wheat, which may prompt farmers to switch to sowing other crops. The particular sector is also marked by the presence of several mid to big size players which led to intense competition from the other players in the sectors. Further, the company is undertaking investment in Sonar Casting Limited (SCL) which shall manufacture casting of Manhole Cover and Di Pipe Fittings at Durgapur (West Bengal). The product has huge demand in Europe and USA. KMML will be investing upto Rs.10.00 crore in SCL and it will remain 100 percent subsidiary.

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

The prices of sugar and the other byproducts manufactured by the company remain extremely sensitive to fluctuations of commodity prices, thereby impacting the overall revenue and profitability profile of the company. Cane production is highly dependent on the monsoon and a fluctuation in FRP (Fair Remunerative Price) impacts the overall revenue and profitability. Further, decline in sugar sale price to Rs.2900 per quintal from previous of Rs.3200-3300 per quintal has impacted the margins of the sugar mills. However, margins for FY2019 are likely to improve to certain extent due to increase in sugar sale price to Rs.3100 per quintal from February 2019.

Liquidity position

KMSML has moderate liquidity marked by moderate net cash accruals to its maturing debt obligations. The net cash accruals of the company stood at Rs.31.70 crore in FY2018 and Rs.46.24 crore in FY2017. The company's operations are moderately working capital intensive as marked by gross current assets (GCA) of 143 days in FY 2018. This has led to moderate reliance on working capital borrowings, the cash credit limit in the company remains utilised at 70 to 80 percent during the sugar crushing season and ~35.00 percent during the last 6 months period ended January 2019. The company maintains unencumbered cash and bank balances of Rs.10.66 crore as on March 31, 2018. The current ratio stands low at 1.03 times as on March 31, 2018. The company is not likely to incur capex over the medium term. Acuité believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that KMML will maintain 'Stable' outlook over 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 revenues, profitability and capital structure while increasing the scale of operations. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial profile and stretch in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	511.36	341.61	358.19
EBITDA	Rs. Cr.	51.94	55.26	35.32
PAT	Rs. Cr.	18.87	37.12	11.70
EBITDA Margin	(%)	10.16	16.18	9.86
PAT Margin	(%)	3.69	10.87	3.27
ROCE	(%)	21.10	29.05	44.20
Total Debt/Tangible Net Worth	Times	1.17	2.16	3.20
PBDIT/Interest	Times	4.76	5.76	2.14
Total Debt/PBDIT	Times	1.85	2.53	2.53
Gross Current Assets (Days)	Days	143	277	202

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

None

Any other information

Not Applicable

Applicable Criteria

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

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
12-Feb-2019	Cash Credit	Long Term	100.51	ACUITE BBB- (Rating watch with developing implications)
	Term Loan	Long Term	17.88	ACUITE BBB- (Rating watch with developing implications)
	Bank Guarantee	Short Term	2.00	ACUITE BBB- (Rating watch with developing implications)
	Proposed Bank Facility	Long Term	9.11	ACUITE A3 (Rating watch with developing implications)
19-Jun-2018	Cash Credit	Long Term	100.51	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	17.88	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Long Term	9.11	ACUITE BBB- / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	21.50	ACUITE BBB- / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	106.00	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.75	ACUITE BBB- / Stable (Withdrawn)
Cash credit	Not Applicable	Not Applicable	Not Applicable	8.04	ACUITE BBB- / Stable (Withdrawn)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	9.11	ACUITE BBB- / Stable (Withdrawn)

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About Acuité Ratings & Research:

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