

Press Release

K M Sugar Mills Limited

August 06, 2019

Rating Withdrawn



Total Bank Facilities Rated*	Rs. 129.50 Cr.
Long Term Rating	ACUITE BBB- (Withdrawn)
Short Term Rating	ACUITE A3 (Withdrawn)

* Refer Annexure for details

Rating Rationale

Acuite has reviewed and withdrawn long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.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 Limited (KMML).

The withdrawal is on account of client's request and receipt of NOC from the banker. The withdrawal is in accordance of Acuite's policy on withdrawal.

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

Acuite 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**

KMSML 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 the 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. 169.08 crore as on 31 March, 2019 as against Rs.84.37 crore as on 31 March, 2018 and Rs.65.50 crore as on 31 March, 2017 due to plough back of profits. The gearing (debt equity) stood comfortable and improved to 0.64 times as on 31 March, 2019 as against 1.17 times as on 31 March, 2018. The interest coverage ratio (ICR) stood comfortable at 6.84 times in FY2019 and 4.76 times in FY2018. Debt Service Coverage Ratio (DSCR) stood at 2.57 times in FY2019 as compared to 1.44 times in FY2018. The net cash accruals against total debt stood moderate at 0.34 times in FY2019 and 0.32 times in FY2018.

Weaknesses

- **Cyclicality 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 will 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 as a 100 percent subsidiary.

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

The prices of sugar and the other by-products 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:

KMML has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The net cash accruals of the company stood at Rs. 36.75 crore in FY2019 and Rs. 31.70 crore in FY2018. The company's operations are moderately working capital intensive as marked by gross current assets (GCA) of 279 days in FY2019 as against 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. 3.03 crore as on March 31, 2019. The current ratio stood low at 1.12 times as on March 31, 2019. The company is not likely to incur capex over the medium term. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	400.92	511.36	341.61
EBITDA	Rs. Cr.	49.54	51.94	55.26
PAT	Rs. Cr.	24.35	18.87	37.12
EBITDA Margin	(%)	12.36	10.16	16.18
PAT Margin	(%)	6.07	3.69	10.87
ROCE	(%)	17.28	21.10	29.05
Total Debt/Tangible Net Worth	Times	0.64	1.17	2.16
PBDIT/Interest	Times	6.84	4.76	5.76
Total Debt/PBDIT	Times	2.08	1.85	2.53
Gross Current Assets (Days)	Days	279	143	277

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
07-Mar-2019	Term loans	Long Term	21.50	ACUITE BBB- /Stable (Reaffirmed)
	Bank guarantee	Short Term	2.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	106.00	ACUITE BBB- /Stable (Reaffirmed)
	Term loans	Long Term	2.75	ACUITE BBB- /Stable (Withdrawn)
	Cash credit	Long Term	8.04	ACUITE BBB- /Stable (Withdrawn)
	Proposed bank facility	Long Term	9.11	ACUITE BBB- /Stable (Withdrawn)
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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	106.00	ACUITE BBB- (Withdrawn)
Term loans	Not Applicable	Not Applicable	Not Applicable	21.50	ACUITE BBB- (Withdrawn)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Withdrawn)

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About Acuité Ratings & Research:

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