

Press Release

L H Sugar Factories Limited

March 16, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	129.75	ACUITE A- Stable Assigned	-
Bank Loan Ratings	584.91	ACUITE A- Stable Reaffirmed Positive to Stable	-
Bank Loan Ratings	9.00	-	ACUITE A1 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	723.66	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating of '**ACUITE A1**' (read as **ACUITE A one**) on the Rs. 593.91 cr. bank facilities and assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 129.75 Cr bank facilities of LH Sugar Factories Limited (LHSF). The outlook revised from 'Positive' to '**Stable**'

Rationale for rating

The ratings reaffirmation derive comfort from extensive experience of promoters in the sugar industry, long track record of operations, good relation with sugarcane farmers and reputed as well as diversified customer base across various industries. The company has sugar mill with capacity of 13000 TCD and forward integrated business with bagasse based co-generation of 44.25 MW and distillery of 160 KLPD. The rating assigned also factors in moderate financial risk profile of the company, moderate debt-coverage indicators, moderate net worth. On the contrary, ratings are constrained on account of working capital intensive nature of industry, industry cyclicality, agro-climatic risks and intense competition in the industry. Going forward, the ability of the company to further sustain its scale of operations along with the effective management of its working capital cycle and financial risk profile would be the key rating sensitivities.

Rationale for Revision in Outlook

Outlook is revised from 'Positive' to '**Stable**' on account of lower than expected growth in revenue and moderation in Operating margin.

About the Company

LH Sugar Factories Limited, was incorporated in 1933 by two brothers – Raja Lalta(L) and Sahu Hari(H). At present the company is being managed by the descendants of the two family. The company is engaged in manufacturing of sugar and its by-products such as molasses used for ethanol generation and bagasse used for power generation. LH Sugar Factories has 13000 TCD sugar mill at Pilibhit in north-western UP. The sugar mill is forward integrated with co generation of 44.25 MW and a distillery of 160 KLPD. Currently company is under process to implement a refinery system to reduce its Current ICUMSA level to 30 to 40 ICUMSA units to get advantage of higher pricing. Further modification in distillery is planned by company.

These refinery set up and modification cost will be ~ Rs 45 crore and will be completed by FY 24.

Analytical Approach

For arriving at the rating, Acuité has taken the standalone view on the business and financial risk profile of LH Sugar Factories Limited.

Key Rating Drivers

Strengths

Experienced management and Forward integrated business model with sugar by-products

LH Sugar Factories commenced its operations in 1910 by two brothers, Mr. Raja Lalta and Mr. Sahu Hari and later in 1933, it was converted into limited company. At present the company is being managed by the descendants of the two family. The company has broad outlook with the company's day to day operations are managed by qualified professionals which is ably supported by well experienced technical team. The company has developed healthy relations with sugarcane farmers as the company has low cane arrears as compared to other sugar mills in the locality. Acuité believes that the company will be benefitted over the medium term on the back of established presence in the sugar industry for more than ten decades. The company has sugar mill with a capacity of 12,500 tonne crushed per day (TCD), the sugar mill is forward integrated with bagasse based co-generation of 44.25 MW.

Moderate Financial Risk Profile

LHSF's financial risk profile is moderate marked by moderate net worth of Rs 292.50 crore as on 31 March 2022 as against Rs.264.51 crore as on 31 March, 2021. The improvement is majorly on account of accretion of profits. Company has moderate leverage policy and comfortable coverage indicators. The gearing (debt-equity) improved by 32 bps in last three year and stood at 1.38 times as on 31 March, 2022 as against 1.55 times as on 31 March, 2021.(1.70 times in FY 20)

Coverage indicators stood comfortable as evident from Interest coverage Ratio of 5.40 times for FY2022 as against 5.31 times for FY2021. The DSCR stood at 1.12 times for FY2022 as compared to 1.57 times for FY2021.

The Net Cash Accruals to Total debt stood at 0.22 times as on FY2022 and 0.23 times for FY2021. The Total outside liabilities to Tangible net worth (TOL/TNW) stood at 1.76 times in FY2022 as against 2.36 times for FY2021. Going forward the financial risk profile is expected to improve because of its improving operating performance and reduction in debt liability of the company.

Weaknesses

Profitability of sugar mills remains vulnerable to industry cyclicality and agroclimatic risks

Being an agro-commodity, the sugar cane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. In addition, the cyclicality in sugar production results in volatility in sugar prices. However, the sharp contraction in the sugar prices is curtailed after the introduction of MSP by the Central Government in June 2018. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice is expected to help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business. Further, the sugar industry is highly competitive and fragmented marked by presence of many organised and unorganised players in this industry, thus putting pressure on the profitability margins of the company.

Moderation in business risk profile

LHSF witnessed moderation of Operating income by 6.09 percent and stood at Rs. 1029.71 crore as against Rs.1096.53 crore for FY2021 (Rs 775.26 crore in FY 20) . Operating profit margin

of the company moderated by 302 bps over the period of three years and stood at 11.39 percent in FY 22 as against 12.27 percent in FY 21 (14.41 percent in FY 20). Furthermore, the net profit margin of the company also moderated by 61 bps over the period of three years (however improved in comparison to last year) and stood at 3.58 percent in FY2022 as against 4.93 percent in FY2021. (4.19 percent in FY 20)

ROCE of the company stood at 9.89 percent in FY 22 as against 14.79 in FY 21.

Working capital intensive operations

Working Capital Operations of company has improved yet remained intensive in nature as reflected by its gross current asset (GCA) days of 201 days as on March 31, 2022 as against 210 days as on March 31, 2021 (304 days in FY 20) which is on the account of inherent nature of business. Sugar industry is being seasonal in nature requires high working capital requirements during the peak period. Peak period for Sugar industry is November to April. Company acquires the Raw Material ie Sugar cane and manufacture sugar during this peak period accordingly company have higher inventory during the period of March

Accordingly company has Inventory days of 202 days in FY22 as against 209 Days in FY 21. Debtor days stood at 10 days for FY 22 as against 11 days in FY 21. Creditor Days stood at 36 days in FY 22 as against 63 Days in FY 21.

Rating Sensitivities

Company's ability to improve operating income and profitability
Improvement in working capital operations

Material covenants

None

Liquidity Position

Adequate

Liquidity profile of the company remained adequate marked by adequate net cash accruals against its maturing debt obligations. Company generated cash accruals of Rs.88.52 Cr in FY2022 as against its maturing debt obligation of 76.66 Cr in the same period. Company has unencumbered cash and bank balances of Rs. 11.41 crore as on March 31, 2022. The current ratio of the company stood at 1.69 times as on March 31, 2022.

Outlook: Stable

Acuite believes that company will continue to benefit over the medium term due to its established market position, established relations with its customers and suppliers and diversified product portfolio. The outlook may be revised to 'Positive', if the company demonstrates substantial growth in its revenues and operating margins from the current levels while maintaining / improving its working capital operation. Conversely, the outlook may be revised to 'Negative', if company generates lower-than-anticipated Operating income, profitability margins or further stretch in its working capital cycle there by impacting its financial risk profile, particularly its liquidity.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1029.71	1096.53
PAT	Rs. Cr.	36.88	54.04
PAT Margin	(%)	3.58	4.93
Total Debt/Tangible Net Worth	Times	1.38	1.55
PBDIT/Interest	Times	5.40	5.31

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria->

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Dec 2021	Term Loan	Long Term	59.08	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	51.21	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	12.53	ACUITE A- Positive (Reaffirmed)
	Proposed Bank Facility	Long Term	2.61	ACUITE A- Positive (Reaffirmed)
	Cash Credit	Long Term	145.00	ACUITE A- Positive (Reaffirmed)
	Cash Credit	Long Term	160.00	ACUITE A- Positive (Reaffirmed)
	Working Capital Term Loan	Long Term	82.97	ACUITE A- Positive (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	21.15	ACUITE A- Positive (Reaffirmed)
	Term Loan	Long Term	11.91	ACUITE A- Positive (Assigned)
	Term Loan	Long Term	38.45	ACUITE A- Positive (Reaffirmed)
24 Aug 2021	Term Loan	Long Term	38.45	ACUITE A- Positive (Assigned)
	Proposed Bank Facility	Long Term	2.61	ACUITE A- Positive (Assigned)
	Term Loan	Long Term	51.21	ACUITE A- Positive (Assigned)
	Term Loan	Long Term	12.53	ACUITE A- Positive (Assigned)
	Bank Guarantee	Short Term	9.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	145.00	ACUITE A- Positive (Assigned)
	Cash Credit	Long Term	160.00	ACUITE A- Positive (Assigned)
	Working Capital Term Loan	Long Term	82.97	ACUITE A- Positive (Assigned)
	Term Loan	Long Term	21.15	ACUITE A- Positive (Assigned)
	Term Loan	Long Term	59.08	ACUITE A- Positive (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A1 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	145.00	ACUITE A- Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	160.00	ACUITE A- Stable Reaffirmed Positive to Stable
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A- Stable Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	2.61	ACUITE A- Stable Reaffirmed Positive to Stable
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A- Stable Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	51.21	ACUITE A- Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	21.15	ACUITE A- Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.53	ACUITE A- Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	59.08	ACUITE A- Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	38.45	ACUITE A- Stable Reaffirmed Positive to Stable

State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	11.91	ACUITE A- Stable Reaffirmed Positive to Stable
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	24.75	ACUITE A- Stable Assigned
State Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	82.97	ACUITE A- Stable Reaffirmed Positive to Stable

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About Acuité Ratings & Research

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