

## Press Release

### G M Sugar And Energy Limited

May 30, 2022

### Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BB+   Stable   Assigned	-
Total Outstanding Quantum (Rs. Cr)	10.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has assigned a long term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs.10.00 crore bank facilities of G M Sugar and Energy Limited (GMSEL). The outlook is '**Stable**'.

### About the Company

GMSEL incorporated in 2007 is a Bangalore based company engaged in the manufacturing of sugar and power generation. It has 4800 tonnes crushed per day (TCD) sugar cane crusing capacity and co-generation plant of 18 MW at Belgaum. It is promoted by Mr. Gowdara Siddesh Anith Kumar, Mr. Prasanna Kumar Mallikarjunappa Gowdara and Mr. Yaragenahalli Siddabasappa Nataraju. It is a Bangalore based Public company. Going the company plans to set up another plant of 5000 TCD sugarcane crushing capacity and 360 kilolitres per day (KLPD) ethanol distillery. This plant will directly produce ethanol from sugarcane juice. The total project cost is estimated to be Rs. 455 Cr. and the commercial operations are expected to commence from April 2023.

### About the Group

Gem Laboratories Private Limited (GLPL) incorporated in 1993 and is a Bangalore based sugar trading company. It procures majority of its sugar from GMSEL. It is promoted by Mr. Gowdara Siddesh Anith Kumar and Mr. Prasanna Kumar Mallikarjunappa Gowdara.

### Analytical Approach

Acuite has consolidated the financial and business risk profile for GMSEL and Gem Laboratories Private Limited (GLPL) on account of operational linkages and common management. Together these have been referred to as GM Group (GG). Extent of consolidation: Full.

### Key Rating Drivers

#### Strengths

#### Experience of management and established track record of operations

The company has a long operational track record as it is operational since 2007. Currently the company is managed by its three directors Mr. Gowdara Siddesh Anith Kumar, Mr. Prasanna

Kumar Mallikarjunappa Gowdara and Mr. Yaragenahalli Siddabasappa Nataraju who have experience of over a decade in the industry. They are further supported by experienced senior management personnel. GMSEL has a semi-integrated operation as reflected from cane crushing capacity of 4800 tonnes per day and cogeneration capacity of 18MW. Around 12 MW of power is used for captive consumption and remaining 6 MW of power is sold to local discoms in Karnataka. GG has a moderate scale of operation with a revenue of Rs. 196.44 Cr. in FY2022 (Provisional) against Rs. 134 Cr. in FY2021 and Rs. 129.89 Cr. in FY2020. Its sugar realisation remained constant in the range of 9-10 percent. Sugarcane crushing increased to 570536 MT for FY2022 from 413851 MT for FY2021 and 429014 MT in FY2019. The plant load factor (PLF) for the co-generation plant declined to 67% in FY2022 against 75% in FY2021.

Acuite expects GG to improve its scale of operations on account of its experienced management and established track record of operations.

### **Leveraged capital structure albeit comfortable coverage indicators**

The Group's gearing stood at high at 2.22 as on March 31, 2021 and it deteriorated from 1.96 times as on March 31, 2020. However significant out of its total debt of Rs. 211 Cr. as on March 31, 2021 Rs. 65.87 Cr. is unsecured debt from promoters which is subordinated to the bank debt and the adjusted gearing stood at 1.53 times as on March 31, 2021 against 1.31 times as on March 31, 2020. The Interest coverage ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 1.68 and 1.46 times respectively in FY2021 against 1.76 and 1.82 times respectively in the previous year. Going forward the company has planned significant debt funded capex for the ethanol plant. This is expected further increase the leverage. However, the debt will have moratorium for 2 years on principal repayment which will begin from FY2024-25 thus not significantly affecting the liquidity over the short term. The promoters also have infused another Rs. 60 Crs. through equity and unsecured loans. This is expected to have moderating impact on the leverage which is expected to be in the range of 1-2 times over the medium term. ICR and DSCR will be in the range of 1.5 -2 times and 1.2-1.3 times respectively going forward.

### **Increased thrust on ethanol production from the Government of India**

GOI has been promoting ethanol production under its ethanol blended petrol (EBP) program which will help it to save on its import bill and also helps sugar mills to reduce their dependence on sugar enabling them to clear the cane arrears. To promote ethanol the government has provided interest subvention on loans for ethanol capacity expansion, fixed the price of ethanol procured by the oil marketing companies (OMCs) and fixed a separate price for B heavy molasses based ethanol and ethanol from sugarcane juice etc. Further, Government in June 2021 has also brought forward the deadline to increase the ethanol blending in petrol to 20% by 2030 to 2025. Currently, it stands at 8-9%. Significant capacity for ethanol production needs to be added. As on 2021 India's ethanol producing capacity stood at 6 billion litres. To achieve the targeted of 20 percent blending this will need to increase to 12 billion litres by 2025, according to ISMA. This will lead to increase in ethanol demand for sugar companies with integrated operations. Currently, sugar companies are able to supply only 70% of tenders floated by oil marketing companies. To further benefit from the favourable Government policies, GG is setting up a new plant 5000 TCD sugarcane crushing plant with 360 KLPD ethanol processing capacity, which expected to start commercial operations by April 2023.

### **Weaknesses**

#### **Project execution risk**

GG is setting up a sugarcane crushing and ethanol plant. The project cost is estimated to be Rs. 455 Cr, with scheduled start of commercial operations in April 2023. This will be primarily funded by debt of Rs. 318 Cr. and rest through promoter's contribution in the form of unsecured loans and equity. The Group has the sanction for the debt and Rs. 100 Cr. debt has already been disbursed. Further, the promoter's contribution has also been infused. Therefore, the project is exposed to low funding risk. The project is being set up under the Government's (EPB) programme. The Group will receive interest rate subvention on the debt and assured demand from public sector oil marketing companies at ethanol prices fixed by

the Government. However, signing of the purchase agreement will take place post completion of the project, demand risk to the project remains low. However, given the nascent stage of completion project remains exposed to execution risk and completion of the project without significant time and cost overruns will remain key rating monitorables.

### **Working capital intensive operations**

GG's operations are working capital intensive marked by GCA of 619 days in FY2021 against 550 days in FY2020. This is primarily driven by high inventory days of 610 days in FY2021 and 469 days in FY2020. GG has been consistently producing more sugar than it is able to sell under the quota system set by the Government. Hence each year there is a continuous build-up of inventory three year period through FY2021. This has led to GG's increased dependence on bank borrowings for working capital funding. Total working capital debt stood Rs. 75.64 Cr. as on March 31, 2021 against Rs. 58.61 Cr. in FY2020. The promoters have also infused significant funds to manage the increasing working capital requirement in form of unsecured loans. Thus GG's the working capital limits utilization remains moderate at 76 percent for 6 months ended March 31, 2022.

However, this year the GG is expected to reduce its inventory by exporting its build up inventory outside of the export incentive regime. However, company's ability to reduce its elongated working capital cycle will remain a key rating sensitivity.

### **Cyclical and regulated nature of sugar industry**

The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

### **Rating Sensitivities**

- Any further elongation in the working capital cycle adversely impacting the liquidity profile
- Completion of capex without significant time and cost overruns.

### **Material covenants**

None

### **Liquidity Position - Adequate**

The GM Group has generated net cash accruals in the range of Rs. 8-12 Crs. For FY2019-21 against repayment obligation in the range of Rs. 3-7 Crs. Going forward the repayment for GM Group are expected to be in the range of Rs. 11-12 Cr. and net cash accruals are expected to be in the range of Rs. 15-20 Cr.s for the period FY2022-23. Although the significant debt has been raised for the ethanol project it has a moratorium on principal repayments until March 2024. The group's operations are highly working capital intensive. However, the promoters have infused unsecured loans and the Group's working capital limits have also been enhanced. Therefore, bank limit utilisation remained modest at 76 percent for six month period ending March 31, 2022. Acuité expects GM Group to maintain an adequate liquidity profile on account of adequate cushion between repayment obligations and net cash accruals constrained to some extent on account of working capital intensive operations.

### **Outlook: Stable**

Acuité believes that the group will maintain a 'Stable' outlook over the medium term owing to its promoters' extensive experience, established track record of operations and moderate financial risk profile. The outlook may be revised to 'Positive' if the group is able to complete its capex project faster than expected or it is able to registers higher than expected revenue growth from its sugar segment while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' if there are delays in execution of the capacity expansion project or its any further elongation in the working capital cycle affecting its liquidity profile.

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	133.94	129.89
PAT	Rs. Cr.	(0.27)	0.68
PAT Margin	(%)	(0.20)	0.52
Total Debt/Tangible Net Worth	Times	2.22	1.96
PBDIT/Interest	Times	1.68	1.76

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

Brickwork Ratings vide its press release dated 15 March 2022, has mentioned the rating of GMSEL to 'BWR C/A4' (Downgraded & Issuer Not Cooperating) as on 15 March 2022.

### Any other information

None

### Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History:

None

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:nilesh.soni@acuite.in">nilesh.soni@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

**Disclaimer:** An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website ([www.acuite.in](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.