



Press Release
G M SUGAR AND ENERGY LIMITED
January 05, 2024
Rating Upgraded

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

Rating Rationale

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

Rationale for rating upgrade

The rating upgrade of GM Group (GMG) takes into account increase in the group's revenue for FY2023 of Rs.269 Cr as against Rs.196 Cr for FY2022 which is a growth of ~37 percent marked by an increase in the quantity of sugar and molasses sold with an improved price realisation during the year. The increase in the revenue is further contributed by increase in the sale of power export due to its high demand. The rating also draws comfort from the experienced management of the group with an established track record of operations and moderate financial risk profile marked by healthy net worth, moderate gearing and moderate debt protection metrics.

The rating is however constrained by the decline in the group's operating margin which stood at 12.74 percent in FY2023 as against 22.69 percent in FY2022 due to an increase in the consumption of raw materials and traded goods as well as increase in the group's operating expenses incurred largely towards the high demand in the power segment. The rating further remains constrained on account of working capital intensive operations of the group marked by its gross current asset (GCA) days of 403 days for FY2023 and the group's presence in the cyclical nature of sugar industry.

Going forward, ability of GMG to achieve significant improvement in the scale of operations and profitability margins while improving and maintaining an efficient working capital cycle will remain key rating sensitivity factors.

About Company

GMSEL incorporated in 2007, is a Bangalore based public company engaged in the manufacturing of sugar and power generation. It has 4800 tonnes crushed per day (TCD) sugar cane crushing capacity and co-generation plant of 18 MW at Belgaum, Karnataka. It is promoted by Mr. Gowdara Siddesh Anith Kumar, Mr. Prasanna Kumar Mallikarjunappa Gowdara and Mr. Yaragenahalli Siddabasappa Nataraju.

The company has also 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 ~Rs. 455 Cr. and COD has been successfully achieved in March 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.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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 (GMG).

Key Rating Drivers

Strengths

Experienced management and established track record of operations

GMSEL has an operational track record of over a decade in the sugar manufacturing and power generation whereas GLPL has an operational track record of three decades in the sugar trading industry. GM Group (GMG) is managed by the directors, Mr. Gowdara Siddesh Anith Kumar, Mr. Prasanna Kumar Mallikarjunappa Gowdara and Mr. Yaragenahalli Siddabasappa Nataraju who possess an experience of over a decade in the sugar manufacturing and trading industry. They are further supported by a team of experienced professionals in managing day-to-day operations of the group. The experience of the management has enabled GMG to establish a healthy relationship with its customers and suppliers.

Acuité believes that GMG will continue to benefit from its experienced management and established track record of operations.

Moderate financial risk profile

Financial risk profile of GMG is moderate marked by healthy net worth, moderate gearing and moderate debt protection metrics. The tangible net-worth of the group stood improved at Rs.269 Cr as on 31 March, 2023 as against Rs.219 Cr as on 31 March, 2022 due to healthy accretion to reserves marked by Rs.46 Cr received during the year by GMSEL against certain prior period adjustments and unsecured loans from the directors of Rs.91 Cr been treated as quasi equity as they are subordinated to the bank borrowings. The gearing (debt-equity) however stood increased at 1.84 times as on 31 March, 2023 as against 1.15 times as on 31 March, 2022 due to an increase in the group's overall debt of Rs.494 Cr in FY2023 as against Rs.251 Cr in FY2022. The increase in the debt profile is towards the completion of scheduled capex of setting up the ethanol plant for which the group has availed long term debt from the bank and unsecured loans from the directors. The total debt of Rs.494 Cr as on March 31, 2023 comprises of long-term bank borrowings of Rs.347 Cr, unsecured loans from directors of Rs.48 Cr and short term bank borrowings of Rs.99 Cr. The gearing is however expected to improve further and remain low over the medium term in the absence of any additional debt-funded capex plan.

The interest coverage ratio and DSCR stood at 1.88 times and 1.19 times for FY2023 as against 1.53 times and 1.21 times for FY2022. The Net Cash Accruals to Total debt stood at 0.03 times for FY2023 as against 0.06 times for FY2022. The Total outside liabilities to Tangible net worth stood increased at 2.26 times for FY2023 as against 1.56 times for FY2022. The Debt-EBITDA ratio remained significantly high at 14.26 times for FY2023 as against 5.56 times for FY2022.

Acuité believes that the financial risk profile of GMG is expected to improve over the medium term due to its improvement in gearing, healthy tangible net worth and comfortable debt

protection metrics.

Increase in revenue albeit decline in operating margin

GMG operates a 4800 TCD sugar plant and it reported an increase in its revenue of Rs.269 Cr for FY2023 as against Rs.196 Cr for FY2022 which is a growth of ~37 percent marked by increase in the quantity sold of sugar from 45,306 MT in FY2022 to 57,811 MT in FY2023 and molasses from 17,549 MT in FY2022 to 32,416 MT in FY2023 with an improved price realisation during the year of sugar from Rs.3,152 per MT in FY2022 to Rs.3,260 per MT in FY2023 and molasses of Rs.10,015 per MT in FY2022 to Rs.10,069 per MT in FY2023. In addition to this, the group also operates an 18MW bagasse-based co-generation plant, so the revenue from power sale increased from Rs.15 Cr in FY2022 to Rs.37 Cr in FY2023 due to high demand of power for export.

Despite of increase in the overall revenue, the operating margin of the group however stood declined due to an increase in the consumption of sugarcane and coal primarily as raw materials and sugar as traded goods. In addition to this, there has been an increase in the group's operating expenses which are incurred largely towards the high demand in the power segment. The operating margin of the group therefore stood declined at 12.74 percent in FY2023 as against 22.69 percent in FY2022, whereas the net profit margin of the group stood marginally lower at 1.48 percent in FY2023 as against 1.51 percent in FY2022.

For the current year, as of September 2023, GMSEL has achieved revenue of Rs.158 Cr and GLPL has achieved revenue of Rs.81 Cr. The group has successfully achieved COD in March 2023 against its scheduled capex of setting up its 360 KLPD / 120 KLPD Grain based ethanol plant along with 5000 TCD cane crushing plant and 30 MW Cogen power plant. Going forward, it is estimated that the group will achieve higher revenue and profitability based on the sale of its produced ethanol to various oil companies along with its increased production of sugar and other by products.

Acuité believes that the ability of GMG to achieve significant improvement in the scale of operations and profitability margins will remain a key rating sensitivity factor.

Weaknesses

Working capital intensive operations

The working capital operations of GMG are highly intensive marked by its Gross Current Assets (GCA) of 403 days for FY2023 which though remained high, it however stood improved against 719 days for FY2022. This is on account of its inventory cycle which though remained elongated, it however recorded an improvement in FY2023 of 264 days as against 512 days for FY2022. On the other hand, the receivables cycle of the group stood improved in FY2023 of 39 days as against 105 days for FY2022, whereas the creditors cycle of the group also stood improved at 178 days for FY2023 as against 250 days for FY2022. The average bank limit utilization for 6 months' period ended November 2023 stood at ~50 percent.

Acuité believes that the ability of GMG to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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

- Ability to achieve significant improvement in the scale of operations and profitability margins
- Ability to improve and maintain an efficient working capital cycle

Liquidity Position - Adequate

GMG has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The group generated cash accruals in the range of Rs.12 Cr to Rs.16 Cr during FY2021 to FY2023 against its debt repayment obligation in the range of Rs.7 Cr to Rs.12 Cr during the same period. Going forward, the NCA are expected in the range of Rs.79 Cr to Rs.110 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.76 Cr to Rs.77 Cr during the same period. The working capital operations of the group are highly intensive marked by its gross current asset (GCA) days of 403 days for FY2023. The average bank limit utilization for 6 months' period ended November 2023 stood at ~50 percent. Current ratio stands at 1.30 times as on 31 March 2023. The group has maintained cash & bank balance of Rs.0.24 Cr in FY2023.

Acuité believes that the liquidity of GMG is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that GMG will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of higher-than-expected growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	268.91	196.49
PAT	Rs. Cr.	3.99	2.96
PAT Margin	(%)	1.48	1.51
Total Debt/Tangible Net Worth	Times	1.84	1.15
PBDIT/Interest	Times	1.88	1.53

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

Not applicable

Any Other Information

None

Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.htm>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
18 Jul 2023	Cash Credit	Long Term	10.00	ACUITE BB (Downgraded and Issuer not co-operating*)
30 May 2022	Cash Credit	Long Term	10.00	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

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

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

- G M Sugar and Energy Limited (GMSEL)
- Gem Laboratories Private Limited (GLPL)

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Nilesh Soni Senior Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.