



Press Release

Lakshmiji Sugar Mills Company Limited (LSMCL)

December 29, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Bank Facility – Term Loan	22.31	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
2.	Long Term Fund Based Bank Facility – Cash Credit	32.00	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
3.	Long Term Fund – Proposed	0.69	IVR BB-/Stable Outlook (IVR Double B Minus with Stable Outlook)	Assigned
	Total	55.00		

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Lakshmiji Sugar Mills Company Limited (LSMCL) derives comfort from its extensive experience of promoters, steady improvement in operational and financial risk profile and positive government measures for sugar industry. However, the rating strengths are partially offset by substantial exposure to group companies, exposed to vagaries of nature, risks related to government regulations and cyclical nature of the sugar business.

Key Rating Sensitivities

Upward Factors

- Sustained & significant improvement in revenue & profit margins
- Steady repayment of long-term debt to reduce the leverage and improve the capital structure

Downward Factors

- Any decline in revenue & profitability leading to deterioration in debt protection metrics
- Increase in long-term debt leading to deterioration in capital structure



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Key Rating Drivers with detailed description

Key Rating Strengths

Extensive Experience of Promoters

Lakshmiji Sugar Mills Company Limited was established in 1936 and has a long track record of operations in sugar manufacturing. The company is currently being managed by experienced promoters and under their guidance has developed healthy customer and suppliers' relations due to the present promoter's extensive experience in the industry over the years and the company is being led by a team of well qualified and experienced professionals. The Company is likely to benefit from the extensive experience of its promoters and management over the medium term.

Steady Improvement in Operations and Financial Risk Profile

The company has reported a steady increase in its revenue of during last 3 years ended FY2020. In FY20 it increased to INR 333.49 Crore from INR 211.55 Crore in FY19, i.e. ~39.32% and INR 183.62 Crore in FY18. The growth in total operating income is largely driven by improvement in scale of operations and an established presence in the regions of Uttar Pradesh coupled with promoters' strong relationships established with the supplier and/distribution network over the years which helped the company to increase its scale of operations. The overall gearing and other debt coverage indicators of the company are steadily improving. The overall gearing ratio of the Company has improved to 3.44x as on March 31, 2020(FY19: 4.07x, FY18: -2.85x) and the long-term debt to equity stood at 2.00x as on March 31, 2020(FY19: 2.57x, FY18: -1.34x). The Interest coverage ratio stood at 3.44x as on March 31, 2020.

Positive Government Measures for Sugar Industry

Indian Government has supported the sugar industries by increasing the minimum selling price of sugar by Rs.2 per kg in February 2019. The Cabinet Committee on Economic Affairs (CCEA) has approved sugar export policy for evacuation of surplus stocks during sugar season 2019-20. The CCEA has given nod to sugar export subsidy of about Rs.6,268 crore for SY20 in order to liquidate surplus domestic stock and help mills in clearing huge sugarcane arrears to farmers in August 2019. The cabinet has approved export subsidy for 6 lakh metric tonne (LMT) for 2019-20. The government will provide a lump sum subsidy of Rs.10, 448 per metric tonne to sugar mills for the sugar season 2019-20. The export subsidy will be provided for expenses on marketing costs including handling, upgrading and other processing costs,



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international and internal transport costs and freight charges. The subsidy would be directly credited into farmers' accounts on behalf of mills against sugarcane price dues. Subsequent balance, if any, would be credited to mills' account

Key Rating Weaknesses

Substantial exposure to Group Companies

LSMCL has a substantial investment in its group companies. The investments stood at INR 33.22 Crore as on FY20 and FY19 as against the tangible networth of INR 22.11 Crore and INR 19.36 Crore as on FY20 and FY19 respectively.

Exposed to vagaries of nature

Being an agro-based industry, performance of LSMCL is dependent on the availability of sugarcane crop and its yield, which may get adversely affected due to adverse weather, climatic conditions and pest related attacks have a bearing on the cane output, which is the primary feedstock for a sugar producer. Further, the monsoons' have a significant influence on the operations for a sugar entity leading to determining of crushing period and sugar recovery levels. In addition, the degree of dispersion of monsoon precipitation across the sugar cane growing areas also leads to fluctuating trends in sugar production in different regions.

Exposure to risk related to government regulations

The Sugar industry is highly exposed to risks related to Government regulations. Various Government Acts virtually governs all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by - product pricing. The procurement of sugarcane by the sugar entities is governed by the Sugarcane (Control) Order, 1966, which stipulates that the mills need to source their sugarcane only from the command area allocated to them. The order also makes it mandatory for the sugar mill to necessarily uplift the entire sugarcane production of the farmer, irrespective of the market demand, which has a considerable impact on the inventory holding pattern. Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market. Moreover, ethanol-blending policy is also highly regulated by the government. Vulnerability in business due to Government regulations is likely to continue over the medium term.

Cyclical nature of the sugar business



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The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country with typical sugar cycles lasting three five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity – Stretched

The company is generating sufficient cash accruals to repay the upcoming debt obligation. However, Current ratio remains below unity in the last three years ended FY20. Furthermore, its bank limits remained utilized to the extent of ~96.85% during the past 12 months ended September'2020 leaving a limited liquidity buffer.

About the Company

Lakshmiji Sugar Mills Company Limited (LSMCL) was incorporated in 1936 and started their commercial production in 1940. The company is in the business of manufacturing sugar and has a total crushing capacity of 5000 TCD.

Financials: Standalone

For the year ended/ As On	(Rs. crore)	
	31-03-2019 (Audited)	31-03-2020 (Audited)
Total Operating Income	239.37	333.49
EBITDA	7.02	12.06
PAT	1.60	2.75
Total Debt	78.74	76.12
Tangible Net-worth	19.36	22.11
Ratios		
EBITDA Margin (%)	2.93	3.62
PAT Margin (%)	0.66	1.03
Overall Gearing Ratio (x)	4.07	3.44



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* Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: NA

Any other information: N.A.

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	22.31	IVR BB-/Stable Outlook	--	--	--
2.	Cash Credit	Long Term	32.00	IVR BB-/Stable Outlook	--	--	--
3.	Proposed Facility	Long Term	0.69	IVR BB-/Stable Outlook	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure I: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund Based - Term Loan	-	-	July 2024	22.31	IVR BB-/Stable Outlook
Long Term Fund Based - Cash Credit	-	-	Revolving	32.00	IVR BB-/Stable Outlook
Long Term Fund Based - Proposed Facility	-	-	--	0.69	IVR BB-/Stable Outlook