Gangamai Industries and Constructions Limited

June 29, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	430.22 (Enhanced from 50.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	80.00	CARE A3 (A Three)	Assigned
Total Facilities	**510.22 (Rs. Five Hundred Ten Crore and Twenty-Two Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Gangamai Industries and Constructions Limited (GIACL) factors in strength from experienced promoter in various sectors like Sugar, Cogen & Construction, strategic location of the plant with fully integrated operations, coupled with established arrangement with farmers for cane procurement. The ratings also factor in steady improvement in TOI as well as healthy profitability margins during FY17-FY22, coupled with improved yet moderate capital structure and moderate debt coverage indicators. The rating also factors in its ongoing expansion project to cater to the growing demand in ethanol & Distillery division, initiatives undertaken by the company amidst increased thrust of government on ethanol production. The rating strengths, however, are tempered by working capital intensive nature of operations, concentrated order book along with slow-moving orders, construction order book dominated by relatively long-gestation government projects, regulated nature of sugar industry coupled with cyclical as well as seasonal nature with agro-climatic risk of the industry.

Rating sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Improvement in TOI over Rs 1200 crores along with increasing profitability margins on sustained basis.
- Sustained improvement in overall gearing below unity and TDGCA of 2x.
- ROCE improving over 15% on a sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Increase in overall gearing beyond 2.00x on a sustained basis
- Adverse changes in government policies affecting the operations and cash flow of the entity significantly.
- Decline in profitability of the company marked by decline PBILDT margin below 10% or less on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

The promoters of GIACL, Mr. Padmakar Mulay, and Muley brothers have an experience of more than two decades in the Sugar industry. Mr. Padmakar H Mulay aged 69 the Promoter & Chairman is a first-generation entrepreneur and is an agriculturist and industrialist having over 34years of experience in agriculture, sugar, and construction industry. GIACL's today operates a completely integrated sugar mill of 5,500 TCD (operational since February2013), with forward integration into cogeneration and distillery operations that de-risk the core sugar business of the company. This vast experience lowers to a great extent the operational risks involved in running a working capital intensive, seasonal, cyclical and partially regulated sugar business. The directors are involved in the day to operations of the business. Further, promoters are supported by team of experienced employees who are handling the day-to-day operations for 20 years.

Consistent Improvement in scale of operations & Profitability margins

The total operating income of GIACL grew at a CAGR of 17.59% during FY17-FY22, from Rs.348 crore in FY17 to Rs.921 crore in FY22 (Provisional) on account of larger number of canes crushed and better prices realization, while the construction division marked a growth of 81% in FY22 on a YoY basis led by improved execution of projects. GIACL witnessed a a better sugar recovery of 10.48% in FY22 as compared to 9.67% in FY21. The company continued to report healthy operating profitability margins of 14.35% in FY22. Further the company registered a PAT margin of 5.16% in FY22 as against 3.16% in FY21 and 2.70 in FY20. The improvement in margins was on account of increased scale of operations, better price realizations and improved execution of higher margins construction orders. TOI and profitability are expected to improve going ahead with the gradual lifting of the lockdown and re-opening of the economy.

1Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Moderate capital structure and moderate debt protection metrics.
The debt profile of the company comprises of Unsecured loans from group companies of Rs 57.47 crores, term loan of Rs. 107.47 crore and working capital loan of Rs 243.75 crores as against the tangible net worth of Rs.257.48 crore as on March 31, 2022. Over the years, with accretion of profits to its net-worth coupled repayment long-term debt and the capital structure of the company has improved but remained moderate. The debt repayment and accretion of profits to reserves resulted improvement in the overall gearing ratio over the years, which stood at 1.59x as on March 31, 2022 (as compared to 1.75 in FY21 and 2.00x in FY20. Further, the debt coverage indicators continue to remain moderately high in FY22. The total debt/GCA, which stood at 5.41x as at the end of FY22 (as compared to 7.27x in FY21) and the PBILDT interest coverage ratio also was at 2.85x in FY22 as against PY 1.88x. The Company has unsecured loans to the tune of Rs 139.44 Crs (Out of which 79.25 crores are subordinated to bank loan and the same have been considered as quasi equity) as on 31st March 2021 which are interest free loans infused by the promoters of the Company.

Diversified product portfolio
During FY22, GIACL generated 36% of total income from sale of sugar (PY: 40%), 23% from sale of ethanol (PY: 16%), 34% from Construction (PY: 38%) and 5% from Power generation (PY: 4.28) remaining from other income (export incentives, interest, and dividend income). Current level of diversification provides partial de-risking of the core sugar business from the inherent cyclicality and volatile sugar prices.

Division Wise EBITDA margin

Particulars	FY 2019	FY 2020	FY 2021	FY22
Sugar Division	12.72%	13.99%	17.39%	16.49%
Construction Division	12.64%	10.62%	10.87%	10.16%

Plant location in sufficient cane and irrigation availability area
GIACL's integrated sugar facilities are located in Shevgaon taluka in district Ahmednagar. The site location is in the tropical zone which is well suited for sugarcane growing with climate and rainfall suited for sugarcane growth. The facilities of the company are set up at a distance of around 10km from the Jayakwadi dam which makes for sufficient irrigation facilities in the command area. The company has arrangements with farmers for over 9lakh tons of sugar cane spread over 10,000 hectares, thereby mitigating risks associated with sugarcane availability. The overall cane availability in the region, as indicated by the management, is to the tune of around 35lakh tones.

Established relationship with reputed players in the market
With long standing experience in the industry, the company has created relationships with its customers from both Government as well as private sectors. It mainly generates revenue from the reputed Government bodies like Indian Sugar Exim Corporation, Maharashtra State Electricity Distribution Company Limited, Bharat Petroleum, Hindustan Petroleum, NHAI, MSRDC among others. The top 10 customers of sugar division contributed to nearly 55% of the revenue generated in this division (overall 39% of the total revenue) in FY 2021. Established relationship with the customers ensures repeated orders from them as a result of quality and reliable products offered.

Key Rating Weakness
Working Capital Intensive Nature of Operations
The working capital requirements of the Company mainly derives from high inventory days due to the specific nature of both sugar as well as construction industry. GIACL's focus on diverting more sugar to ethanol will be positive for the company as the manufacturing of ethanol (B-Heavy route) leads to quicker receivables compared with a gradual liquidation of the large sugar inventory spreading across 4-5 months. In FY21, GIACL witnessed strengthening of the business risk profile with increased diversion of sugarcane towards ethanol production leading to improved revenue diversification and lower sugar inventory levels. As a result of the above, during FY21, working capital requirements decreased and operating cycle improved to 120 days from 148 days in FY20 for the company.

Modest order book position indicating medium term revenue visibility
Construction:
The company has unexecuted order book position of Rs.816.86 crore (including the new orders and pending order of as on February 28, 2022) FY22 TOI provides revenue visibility for more than 3 years (FY23, FY24 and FY25). The current order book position mainly includes contracts for improvement, strengthening and widening of roads. Timely execution of the current orders and collections of receivables will be crucial. The Company has an order book position to the tune of INR 816.86 Crs which provides a revenue visibility of nearly 2.60 times of the revenue generated in FY 2022 from construction division. It has recently bagged a large order of NHAI with the project cost amounting to Rs 848.63 Crs.

Project Execution & Stabilization Risk
The company is implementing a project which involves expansion of its existing capacities of the ethanol plant to 500 KLPD from 250 KLPD and distillery to increase from 150 KLPD to 300 KLPD. The total cost of the project was estimated at Rs.87.40 crore, which was funded by term loan of Rs 60 crores (Rs 45 crores disbursed from canara bank and balance will disbursed with the completion of the project) and balance from internal accruals. Plant is expected to be operational from FY 2023 onwards.

Furthermore, the margins in the ethanol segment are also higher compared to other segments on the back of remunerative prices being announced by the government for blending.
A higher proportion of income derived from sale of ethanol will consequently also help improve the overall PBILDT margins of the company in the projected period & also lower interest cost. Hence, timely completion of the project without any cost and time overrun as well as the ability of the company accrue benefits from ongoing expansion would remain critical from credit perspective.

Regulated nature of the industry
The industry is cyclical in 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. However, the forward integrated nature of operations with distillery and cogeneration power divisions mitigates the industry cyclicality to an extent.

Cyclical and seasonal nature of the industry:
The production of sugarcane and hence sugar is cyclical in nature wherein production of sugarcane is on an uptrend for two years and then declines over the next two years, before trending up again. It is a typical cycle which is affected by cane supply and sugar demand. The production of sugar is seasonal in nature as the sugarcane is crushed from November to March/April and may extend in case of surplus sugarcane production

Agro-climactic risk
The sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro climatic risks including pest & diseases. Climatic conditions, more specifically, the monsoons influence various operational parameters for a sugar entity, such as the crushing period and sugar recovery levels.

Liquidity analysis: Adequate
Liquidity of company is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. During FY23 to FY24, the repayment obligations are expected to be in the range of Rs.32crore-Rs.36crore at least for the next three years and against which the company is expected to generate sufficiet GCA to the tune of nearly Rs.100 crore for upcoming years. Further, the company had an unencumbered cash and cash equivalent to the tune of Rs.13.51 crore as on March 31, 2021 & 3.62 crores as on March 31, 2022. In addition, despite being in Sugar and construction business the utilization of fund-based limits continues to be on lower side in the range of 68% for the last twelve months ending March 31, 2022.

Industry Outlook:
Increased thrust of government on ethanol: On 5 June 2021, the government advanced the ethanol blending target of 20% in petrol by 5 years from 2030 to 2025 to reduce pollution and India's dependence on expensive crude oil imports. This move is expected to provide a boost to the sugar industry by encouraging more diversion of sugarcane and sugar towards ethanol thereby reducing sugar glut in India. The EBP program aims to increase ethanol blend level with petrol to 7.5%-8% by 2020-21, 10% by 2022 and 20% by 2025 (advanced from 2030). The blending percentage of 7.6% has been achieved in the current SS on an average with some states like Uttar Pradesh, Maharashtra, Karnataka, Uttarakhand, Bihar, etc. have even achieved higher blending percentage of up to ~10%. With the surplus sugar situation auguring well for the ethanol industry and with the support government has shown in the recent past in the form of interest subventions for distillery capacity expansion, aggressive capex is underway already as around 1,000 crore liters of ethanol is required to achieve the target of 20% blending.

Analytical approach: Standalone

Applicable Criteria:
Policy on default recognition
Financial Ratios - Financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies
Sugar
Construction

About the Company
Gangamai Industries & Constructions Limited (GIACL; previously known as Gangamai Sugar Industries Limited), part of the Padmakar Mulay Group of Industries of Aurangabad, was incorporated in May 1999. The company has sugar factory with (installed capacity 5,500 tons crushed per day [TCD] operational since February 2013), power (co-generation plant of capacity 32 mega-watts [MW] operational from October 2013, current capacity 32MW), alcohol (distillery capacity of 150 kiloliters per day [KLPD] operational since October 2013), and construction of road/railways/irrigation projects in the state of Maharashtra.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022(Prov)
Total operating income	597.38	623.67	920.99
PBILDT	80.47	89.49	132.13
PAT	16.11	23.19	45.71
Overall gearing (times)	2.00	1.75	1.59
Interest coverage (times)	2.09	1.88	2.85

A: Audited, Prov: Provisional

Status of non-cooperation with previous CRA: CRISIL B/CRISIL A4 (Issuer Not Cooperating) (as per PR Dated December 08, 2021) and IND BB (Issuer Not Cooperating) (As per PR dated July 10, 2020)

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	350.00	CARE BBB; Stable
Fund-based - LT-Term Loan		-	-	June 2026	80.22	CARE BBB; Stable
Non-fund-based - ST-BG/LC		-	-	-	80.00	CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	350.00	CARE BBB; Stable	1)CARE BBB; Stable (07-Jun-22)	-	-	-
2	Fund-based - LT-Term Loan	LT	80.22	CARE BBB; Stable				
3	Non-fund-based - ST-BG/LC	ST	80.00	CARE A3				

Annexure-3: Detailed explanation of covenants of the rated facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
TOL/TNW	Less than or equal to 4x
Current Ratios	Minimum 1.33x
DSCR	1.5x to be maintained
Margin	Inventory:25% Book debts: 25%
B. Non-financial covenants	
1. Non-Submission of Stock Statement	Monthly stock and book debt statement submit to bank by 10th of succeeding quarter, delay in submission will attract penal interest as applicable, at rates circulated from time to time.
2. Non submission of CMA/Renewal data for the period beyond 3 months	Will attract penal interest as applicable, at rates circulated from time to time.
3. Non submission of Financial Statement of previous year within 6 months of closure of financial year	Will attract penal interest as applicable, at rates circulated from time to time.
4. Account remains overdrawn due to irregularities such as nonpayment of interest, nonpayment of installments within one month of falling due, reduction in drawing power, excess borrowing due to over limit.	Will attract penal interest as applicable, at rates circulated from time to time.

Annexure 4: Complexity level of various instruments rated for this Company:

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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