



## IPO DETAILS

|                      |   |
|----------------------|---|
| Issue Date           | 30 <sup>th</sup> Sept-04 <sup>th</sup> Oct 2019 |
| Price Band           | 55-60 per Share                                 |
| Bid Lot              | 240 & in multiple there                         |
| Face Value           | Rs 10/Share                                     |
| Listing              | BSE, NSE  |
| Offer For Sale       | 70,00,000 Eq Shares                             |
| Fresh Issue          | 30,00,000 Eq Shares                             |
| Pre Issue Eq Shares  | 3,45,56,000 Eq Shares                           |
| Post Issue Eq Shares | 3,75,56,000 Eq Shares                           |
| BRLM                 | Aryaman Financial<br>Services Limited           |
| Registrar            | Bigshare Services<br>Private Limited            |

Company is engaged in the business production of sugar and manufacture of other products including Distillery (Spirits) products, Indian Made Liquor, Vinegar, other by-products and also in the generation of power. Company have a total licensed sugarcane crushing capacity of 11,000 TCD and installed sugarcane crushing capacity of 8,500 TCD. Company sell its manufactured sugar to various wholesalers, stockists and also to several FMCG companies throughout the country, who use sugar for manufacture of various biscuits, confectionery and beverages.

With a total co-generation capacity of 36.4 MW, company ideally use approximately 14 MW for its captive consumption. The remaining electricity generated is sold to third parties through a PPA or an open sale. Currently, company have entered into a PPA for sale of balance MW electricity with 5 different electricity supply companies. Further, company have installed various energy saving devices at its production facilities such as planetary gear boxes, variable frequency drives, swing type fibrizor, high efficiency pumps and energy efficient motors which help company reducing the consumption of energy in its crushing operations. Company have also installed planetary gear boxes in its boiling house section and have further introduced energy efficient condensers and unforced cooling tower as power saving measures. Similarly, in the co-generation unit, company's power consumption has been reduced due to installation of a spray pond instead of forced draught cooling tower.

Company's factory unit is located approximately 70 kms from the main city of Belgaum, which has established road and rail connections to various major cities like Bangalore, Chennai, Mumbai, Pune and Goa. The air route from Belgaum is also constantly growing which enables certain urgent transportation possible.

Company have incurred losses in the past i.e. during F. Y. 2018-19, F. Y. 2017-18 and F. Y. 2014-15 for amount of ₹ 1,761.99 lakhs, ₹ 426.67 and ₹ 57.68 lakhs, respectively. In particular, company's Sugar Segment, which is the primary manufacturing business of company, has incurred significant losses in the past.

Company's IML products currently consist of only whisky which is mainly sold under its brand "VSL Deluxe Whisky". Besides, company also have whisky brands like "District - 1" and "VSL Black". With the success of company's whisky brands, company intends to launch other products like Rum, Gin and Vodka under the same brand. Company has already obtained the relevant approvals for these products and currently in the testing stage of these products. Company's IML products currently contribute approximately 8% of its total revenue from operations. The addition of these new products will enable company to cater to a bigger market and also enable company to cater to customers of larger demographic base.

### Valuation

Although company has experienced promoters and strong executive team with wide range of products & has integrated operations with economies of scale but loss incurred by company is major concern .

Hence at present level we recommend "Avoid" on issue .



# COMPANY OVERVIEW

Company is an integrated sugar and other allied products manufacturing company operating from Belgaum District in the State of Karnataka which is designated as one of the "High Recovery zones" for sugar production by Government of India. Company operate a single location sugar unit having licensed crushing capacity of 11,000 TCD. In addition to sugar company also manufacture other allied products like Rectified Spirits, Extra-Neutral Spirits, Indian Made Liquor, Vinegar, Compost, Carbon dioxide (CO<sub>2</sub>), etc. and are further engaged in the generation of Power for captive consumption as well as external sale. Company's business can hence be broken up into five main segments namely Sugar, Co-Generation, Distillery, Indian Made Liquor (IML) and Vinegar.

In the year 2001, company commenced operations of manufacture of Distillery products such as Ethanol, Rectified Spirit and Extra Neutral Spirit. In the year 2006, company implemented backward integration and began commercial operations for Sugar manufacture from sugarcane, along with Co-Generation capabilities. During the year 2008, company began bottling of Indian Made Liquor. Currently company's integrated unit processes sugarcane to produce sugar and the byproducts are used to generate electricity for captive use and commercial sale, manufacture rectified spirit, ENA, IML, Vinegar, Press-mud and Compost. Over the years, company have expanded the production / manufacturing capacities of all its products.

Company's present licensed manufacturing capacity for its various products is given below:

| Sr.No | Product                     | Current Approved Capacity |
|-------|-----------------------------|---------------------------|
| 1.    | Sugar                       | 2,42,000 Tons/Year*       |
| 2.    | Bagase                      | 6,60,000 Tons/Year*       |
| 3.    | Molasses                    | 88,000 Tons /Year*        |
| 4.    | Rectified Spirit            | 30,000 KL/Year            |
| 5.    | Extra Neutral Alcohol (ENA) | 21000 KL/Year             |
| 6.    | Industrial Ethanol          | 90,000 KL/Year            |
| 7.    | Electricity/Power           | 4,96,800 MW/Hr            |
| 8.    | Brewed Vinegar              | 10,350 KL/Year            |

\*: The above licensed capacities are equivalent to a total Sugarcane crushing capacity of 11,000 TCD working for approximately 200 days per year (Crushing Season) at an average 11% recovery rate for sugar, 30% for Bagasse and 4% for Molasses.

Company have setup its integrated facility over an area of around 132.85 acres (57,86,946 sq. ft.) which houses company's Registered Office, Manufacturing Unit, Packing Unit and Storage Unit. All of these units are located in close proximity to each other within the facility.

Company is involved in the process of production of sugar, with a total capacity crushing capacity of 8,500 tonnes per day. Sugarcane being a seasonal crop, the sugar manufacturing majorly takes place during the sugarcane period of October to April known as Crushing Season. Company use modern technology which enables it to optimally utilize the available resources to ensure maximum crushing capacity and thereby maximize the production of sugar. Company have a total licensed sugarcane crushing capacity of 11,000 TCD and installed sugarcane crushing capacity of 8,500 TCD. The sugar produced by company is differentiated on the basis of the size of the sugar crystals. These types are termed as M, M2, S1, S22 and S30 which are in descending order of the size of the crystals.

Since the de-regularization of Sugar, company has developed a robust marketing and sales team which liaisons with various major brands. Company sell its manufactured sugar to various wholesalers, stockists and also to several FMCG companies throughout the country, who use sugar for manufacture of various biscuits, confectionery and beverages.



# STRENGTHS & RISKS

## STRENGTHS

### Wide range of products

The process of production of sugar produces various residual materials and by-products like Bagasse and Molasses. These residual materials are used by company as raw materials for manufacturing further products. The Bagasse, which is a dry residue after the sugar production process is used to generate electricity by burning the same in the Boilers. Molasses is used in the distillery unit to make a range of products like rectified spirit, ENA and IML and the rectified spirit so produced is used in the production of Industrial Vinegar. Also surplus Molasses is sold directly to other distillery units. Further, the mud generated in the sugar process is used along with certain distillery unit wastes to produce CO<sub>2</sub>, press mud and compost. The customers of different products cover a wide range of industrial sectors like FMCG, Government agencies, Food industry and Cold Storage industry to name a few. The above wide range of products gives company a large market for each product. Company have made sugar sales to various wholesalers, FMCG companies and also to local and state government agencies.

### Integrated operations and economies of scale

Company have integrated operations enabling it to meet the time, cost efficiency, quality and quantity requirements. The residual material and by-products generated from the production process of one product is used as a raw material for manufacturing another product. Thus company's diversified but integrated business model provides most of the necessary raw materials in-house for the various business segment products leading to reduced costs and control over the input material. Company's unit has been setup such that the residual materials from one production process are transported to their respective product units either via pipes or conveyor belts or other in-house transport mechanism. This provides company seamless flow of raw material for all its products and also enables company to transport the surplus materials, if, any, for direct sale. This integration allows company not only to save enormous costs and have less dependence on third party for input materials, but also helps company achieve economies of scale by controlling the inputs / production based on each previous process, improving company's efficiency and margins.

## RISKS

### Incurring losses in the financial year ended 2018-19, 2017-18 & 2014-15

Company have incurred losses in the past i.e. during F. Y. 2018-19, F. Y. 2017-18 and F. Y. 2014-15 for amount of ₹ 1,761.99 lakhs, ₹ 426.67 and ₹ 57.68 lakhs, respectively. In particular, company's Sugar Segment, which is the primary manufacturing business of company, has incurred significant losses in the past and there is no assurance that it will not incur similar losses in the future. These losses are mainly attributable to the seasonal nature of company's business, fluctuating sugar prices, increasing sugarcane prices and / or to period of low overall sugarcane growth and availability. In the event of such loss in the future, company's business operations, financial conditions and overall growth will be materially and adversely affected.

### Company's business is working capital intensive

Company's business is working capital intensive including fund requirement for payment for sugarcane purchase during the crushing season. Hence, major portion of company's working capital is utilised towards debtors and inventory. Company's debtors for the F. Y. 2018-19, 2017-18 and 2016-17 was 18.14%, 14.80%, and 19.08% of the total net worth respectively in each year. Company's inventories F. Y. 2018-19, 2017-18 and 2016-17 was 153.36%, 114.28%, and 78.28% of the total net worth respectively in each year.



# STRATEGIES

## **Increasing operational efficiency**

Company's product portfolio consists of sugar and various other products manufactured by processing its residual products. Hence operational efficiency for each product is related to its previous product's efficiency and quality. Company continue to invest in increasing company's operational efficiency throughout the organisation. Company is addressing the increase in operational output through continuous process improvement, increasing recovery rate through timely sugarcane crushing, technology development throughout the products, consistent quality and customer service. Company also strive to achieve alignment of its people towards 'process improvement' through change management and upgrading of skills for latest technology and as required for customer satisfaction is a continuous activity. Awareness of this quality commitment is wide spread among all the employees.

## **Explore possibilities of geographical expansion**

Company is currently situated in the area of Bellad Bagewadi and it intends to propose to explore other geographical locations within the Belgaum District. Company, with intent of exploring new location with significant sugarcane cultivation area and abundant sugarcane growth has acquired a land of approximately 9 acres and 12 Gunthas by way of 'Full Paid Power of Attorney'. However, company is still at planning stage and has neither finalised any specific utilisation for the said land nor any plans have been put forth regarding the funding, capacity, products and other details.

## **Addition of new IML products**

Company's IML products currently consist of only whisky which is mainly sold under its brand "VSL Deluxe Whisky". Besides, company also have whisky brands like "District - 1" and "VSL Black". With the success of company's whisky brands, company intends to launch other products like Rum, Gin and Vodka under the same brand. Company has already obtained the relevant approvals for these products and currently in the testing stage of these products. Company's IML products currently contribute approximately 8% of its total revenue from operations. The addition of these new products will enable company to cater to a bigger market and also enable company to cater to customers of larger demographic base. Further, different products with the existing brand name will allow company greater brand recognition and also enable company to enter different markets with a large product portfolio.

## **Augment company's fund based capacities in order to scale up business operations**

As company's operations are working capital intensive, hence its company's strategy to raise funds from this issue and augment its fund based working capital capabilities. As companies with high liquidity on their balance sheet would be able to better negotiate with sugarcane suppliers. With the de-regulation of the sugar industry, farmers are free to sell their produce where they like and are not obligated to sell any portion of the same to company. Better liquidity will also provide company with sufficient incentives to ensure the farmers prefer company for selling their sugarcane produce in each season. Also, company invest a portion of its working capital to provide some of its farmers with high quality seeds for better crop quality. Additional working capital will enable company to offer such high quality seeds on larger quantities and to a large farmer base. Funding this working capital requirement from the proceeds of the Fresh Issue will also enable company to save a considerable interest cost due to lower working capital borrowings.



## Objects of Offer

### The Offer for Sale

The Selling Shareholders propose to sell an aggregate of up to 70,00,000 Equity Shares held by them. Company will not receive any proceeds of the Offer for Sale by the Selling Shareholders.

### Net Fresh Issue

The Objects of the Net Fresh Issue is to raise funds for:

- (a) Funding Working Capital Requirement
- (b) General corporate purpose

## Financial Statement

(Rs Cr)

| Particulars        | FY17   | FY18   | FY19   |
|--------------------|--------|--------|--------|
| Total Income       | 321.84 | 259.28 | 306.80 |
| Operating Exp      | 275.98 | 235.74 | 282.06 |
| EBIDTA             | 45.86  | 23.54  | 24.73  |
| EBIDTA Margin (%)  | 14.25  | 9.08   | 8.06   |
| Other Income       | 1.04   | 9.65   | 1.08   |
| Depreciation       | 11.53  | 13.20  | 13.34  |
| EBIT               | 35.37  | 19.99  | 12.47  |
| Interest           | 24.91  | 20.85  | 36.36  |
| PBT                | 10.45  | -0.86  | -23.89 |
| E/O Item           | 0.00   | 0.00   | 0.00   |
| PBT After E/O Item | 10.45  | -0.86  | -23.89 |
| Sh of Profit in JV | 0.00   | 0.00   | 0.00   |
| PBT                | 10.45  | -0.86  | -23.89 |
| Tax                | 4.39   | 3.40   | -6.27  |
| PAT                | 6.06   | -4.27  | -17.62 |
| Other Comp Inc     | 0.00   | 0.00   | 0.00   |
| Adjusted PAT       | 6.06   | -4.27  | -17.62 |
| NPM(%)             | 1.88   | -1.65  | -5.74  |
| Eq Capital         | 34.56  | 34.56  | 34.56  |
| Res & Surplus      | 197.93 | 194.32 | 176.94 |
| Non Con Int        | 0.00   | 0.00   | 0.00   |
| Net Worth          | 232.49 | 228.88 | 211.50 |
| Eq Shares ( In No) | 3.46   | 3.46   | 3.46   |
| EPS                | 1.75   | -1.23  | -5.10  |
| ROE (%)            | 2.61   | -1.86  | -8.33  |
| ROCE (%)           | 2.28   | -0.16  | -4.50  |
| Book Value         | 67.28  | 66.23  | 61.20  |

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