February 04, 2025

JGN Sugar and Biofuels Private Limited: [ICRA]A(CE) (Stable)/ [ICRA]A2+(CE); assigned

Summary of rating action

Instrument^	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Cash Credit	143.00	[ICRA]A (CE) (Stable); assigned
Long-term – Fund-based – Term Loans	213.00	[ICRA]A (CE) (Stable); assigned
Short-term - Fund-based – LER/ Forward Contract	5.20	[ICRA]A2+(CE); assigned
Long-term/ Short-term – Unallocated	3.80	[ICRA]A (CE) (Stable)/ [ICRA]A2+(CE); assigned
Total	**365.00**	

Rating Without Explicit Credit Enhancement	[ICRA]BBB/ [ICRA]A3+

^Instrument details are provided in Annexure

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]A (CE) (Stable)/ [ICRA]A2+(CE)

The assigned ratings of [ICRA]A (Stable)(CE)/ [ICRA]A2+(CE) for Rs. 365.0 crore of bank facility of JGN Sugar and Biofuels Private Limited (JGN/the company) are based on the strength of the corporate guarantee provided by its sponsor, Bahl Paper Mills Ltd. (BPML) rated [ICRA]A (Stable)/ [ICRA]A2+. The Stable outlook on the long-term rating reflects ICRA's outlook on the credit profile of the guarantor, BPML.

Adequacy of credit enhancement

The rating of the facility is based on the credit substitution approach, whereby ICRA's opinion on the credit profile of the guarantor has been translated into the ratings of the said facilities. The guarantee is irrevocable, unconditional, covers the entire sanctioned amount and tenure of the rated facilities and has a well-defined pre-default invocation and payment mechanism. Given these attributes, the guarantee provided by BPML is adequately strong to result in an enhancement in the ratings of the said facilities to [ICRA]A (Stable)(CE)/ [ICRA]A2+(CE) against the ratings of [ICRA]BBB/ [ICRA]3+ without explicit credit enhancement. If ICRA's opinion on the credit profile of the guarantor changes in the future, the same would reflect in the ratings of the aforesaid facilities as well.

Salient covenants of the rated facility

» Bank reserves the absolute right to cancel the sanctioned limits (either fully or partially) unconditionally without prior notice:
  - In case limits/part of limits not utilised by the company, and/or
  - In case the deterioration in the loan account of borrower any manner whatsoever, and/or
  - In case noncompliance of terms and conditions of sanction letter.

» JGN to maintain DSCR, Interest Coverage and Debt/OPBDITA of 1.25 times, 1.2 times and 7.0 times, respectively.

Key rating drivers and their description

Credit strengths

Established operational track and extensive experience of promoters in the paper industry – BPML was incorporated in 2006 to manufacture duplex board and poster paper. The promoters have been involved in the paper business for more than three decades and have also developed enduring relationships with its customers and suppliers.

Venture into sugar/ethanol business expected to aid revenue diversification – BPML has diversified its business profile by foraying into sugar and ethanol production, along with co-generation power in JGN. JGN is expected to provide strong revenue visibility from FY2025 on account of healthy capacity utilisation in both sugar and ethanol. Sugar offtake will be driven by the Government allotted quota while there is a strong demand for ethanol by oil marketing companies to achieve the blending target of petrol.

Diversified product profile and established presence in value-added paper supports margin profile – BPML's product portfolio is well diversified. It manufactures duplex board, kraft paper and poster paper. The company produces various categories of coated duplex boards, which are extensively used in the printing and packaging industry. The company is also involved in the manufacturing of high-grade kraft paper and poster paper. Most of the company's revenues come from duplex board, which is generally a more value-added product and generates better margins than other products.

Diversified end-user sectors mitigate risk of demand slowdown in any particular industry – BPML manufactures specialised kraft paper of burst factor (BF) between 16 and 28, and duplex boards between 250 grams per square meter (GSM) and 600 GSM. BPML's end-user industries include pharmaceuticals, food chains, footwear, cosmetics, toiletries, cigarettes, liquor, FMCG and others. The company's end-presence across sectors insulates it from a downturn in any one specific industry. In addition, JGN will provide further business diversity to BPML's consolidated operational profile.

Credit challenges

Moderation in financial risk profile due to large debt-funded capex for the sugar business, expected to improve gradually – BPML has remained debt-free in recent years at a standalone level. However, a large debt-funded capex in the subsidiary, JGN, has led to moderation in the capital structure and debt coverage metrics on a consolidated basis in FY2024 and the current fiscal. JGN's project cost was ~Rs. 396 crore, which was financed through a term loan of ~Rs. 213 crore, Rs. 50 crore of compulsorily convertible debentures (CCDs) from BPML and balance from the equity infusion. JGN's facility has recently been commercialised and ICRA expects a steady ramp-up over the near term, which coupled with the steady performance of the paper business is expected to support the gradual improvement in the financial risk profile.

Profitability vulnerable to adverse fluctuations in raw material and output prices – Any adverse movement in raw material prices can negatively impact the company's margins, as witnessed through moderation in margins for FY2023 and FY2024. The company is also expected to witness some decline in margins for FY2025 in the paper business. BPML encountered pressure on sales realisations in FY2024 and in the current year, including certain input costs, which have impacted its margin profile. Being an agri-commodity, the sugarcane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. Further, high dependence on a single crop variety may affect the yield and recovery rates. In addition, the cyclicality in sugar production results in volatility in sugar prices.

High working capital intensity – BPML operates in a working capital-intensive industry, with high inventory requirements as reflected by the NWC/OI of 30-35% in recent years. Moreover, JGN's working capital intensity is expected to be higher at 50-60%. This is due to the company's nature of business and its requirement to maintain the inventory level for sugar and ethanol, considering the raw material, i.e., sugarcane, is available only during the November–April period.

Liquidity position: Adequate

For [ICRA]A (CE) (Stable)/ [ICRA]A2+(CE): Adequate

BPML's liquidity is adequate, driven by healthy free cash and liquid investments of ~Rs. 35 crore (as on January 29, 2025) and a cushion of ~Rs. 32 crore in the overdraft facility amid healthy cash generation from business on a sustained basis. While there is no debt at a standalone level in BPML, it has repayments of ~Rs. 16 crore and ~Rs. 27 crore, respectively, in FY2026 and FY2027 on a consolidated level, for the term loans availed for the capex undertaken in JGN. JGN's ability to timely ramp up its operations and achieve the desired operating efficiency will remain key for BPML's consolidated liquidity profile.

For [ICRA]BBB: Adequate

The liquidity position for JGN is adequate, on account of the sufficient cushion in the cash credit facility of Rs. 143 crore for its own working capital requirement. Given that commercial production of sugar plant is already commenced, the gradual increase in operations in the current sugar year (SY) likely to provide earnings support over the near to medium term. Apart from the equity investment from BPML, the company has also received Rs. 50 crore of CCDs at nominal rate of interest as funding support.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings in case of strengthening of the credit profile of BPML.

Negative factors – Pressure could arise on the ratings in case of a deterioration in the credit profile of BPML.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology of Sugar
Parent/Group support	The ratings are based on the unconditional, irrevocable and continuing guarantee from BPML that covers all the repayment obligations of the sanctioned facilities.
Consolidation/Standalone	Standalone

About the company

JGN was incorporated for the Group's venture into the sugar and ethanol business. In November 2024, JGN commenced the production of sugar, ethanol, and generated power from its co-generation power plant in Sitarganj, Uttarakhand. The plant has been acquired on a 30-year lease from Uttarakhand Sahakari Chini Mills Sangh Limited on a develop, operate, maintain and transfer (DOMT) basis. BPML holds an 87.14% stake in JGN and has extended corporate guarantee to the entire debt sanctioned to JGN. The company decided to expand its sugar plant with the addition of ethanol manufacturing and a co-generation power plant. The old plant was unviable since it only produced sugar and had inefficient machinery. There was no issue of availability of sugar cane in the locality, which is key for the success of any integrated sugar plant. JGN has a capacity for 6,240 tonnes of cane crushed per day (TCD), 3,240 TCD of sugar production, 3,000 TCD of ethanol production, and 21.8 megawatts (MW) of co-generated power.

JGN commenced its commercial production from November 2024, from the start of the current SY. November-April is the peak season for sugar cane, when the company produces its sugar and ethanol to sell throughout the year. The company's profitability is prone to the cyclical nature of the sugar industry (though the sharp fall in sugar prices has been curtailed after the introduction of minimum selling price) and the agro-climatic risks related to cane production. Further, the profitability of sugar mills, including JGN, is exposed to the policies of the Central and state governments on cane prices, international trade, domestic quota, sugar and ethanol pricing, and interest subvention loans for distillery capacity expansions. However, BPML has been resourceful in infusing funds for repayment of its term loans or working capital requirements, if any.

Key financial indicators (audited/Provisional)

JGN – Standalone	FY2024	H1FY2025*
Operating income	19.9	59.1
PAT	(1.5)	(8.1)
OPBDIT/OI	10.6%	-5.9%
PAT/OI	-7.6%	-13.7%
Total outside liabilities/Tangible net worth (times)	2.4	2.2
Total debt/OPBDIT (times)	16.2	(41.0)
Interest coverage (times)	0.9	(1.1)

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; * Provisional financials*
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

About the Guarantor

Incorporated in 2006, BPML was established by Mr. Naresh Jhanjhi. The company is involved in the manufacturing of various categories of coated duplex boards that are extensively used in the printing and packaging industry (for packaging requirements in the FMCG, pharma, readymade garments, and automobile ancillary industries, etc). BPML also manufactures high-grade duplex boards that find application in the making of wedding cards, visiting cards and notebook covers, etc. The company also manufactures kraftpaper and poster papers, used in bakeries and food chains, grocery bags, printing calendars, bangle packing and others. Its manufacturing unit is in Kashipur, Uttarakhand, with an installed production capacity of 1,56,000 metric tonnes per annum.

Key financial indicators (audited)

BPML – Consolidated	FY2023	FY2024
Operating income	607.5	493.4
PAT	82.1	73.9
OPBDIT/OI	18.3%	18.0%
PAT/OI	13.5%	15.0%
Total outside liabilities/Tangible net worth (times)	0.2	0.5
Total debt/OPBDIT (times)	0.1	2.4
Debt service coverage ratio (times)	432.3	36.0
Interest coverage (times)	515.0	35.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore;
PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current year (FY2025)			Chronology of rating history for the past 3 years							
	Type	Amount rated (Rs. crore)	4-Feb-2025	FY2025		FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	143.00	[ICRA]A (CE) (Stable)	-	-	-	-	-	-	-	-
Term Loans*	Long term	213.00	[ICRA]A (CE) (Stable)	-	-	-	-	-	-	-	-
LER/ Forward contract	Short Term	5.20	[ICRA]A2+(CE)	-	-	-	-	-	-	-	-
Unallocated	Long term/ Short Term	3.80	[ICRA]A (CE) (Stable)/ [ICRA]A2+(CE)	-	-	-	-	-	-	-	-

** total term loan sanctioned was Rs. 260 crore, however, the final drawdown amount is Rs. 213 crore only*

Complexity level of the rated instruments

Instrument	Complexity indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term – Fund Based – Term Loans	Simple
Short term - Fund Based – LER/ Forward contract	Very Simple
Long Term/Short Term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Cash Credit**	NA	NA	NA	143.00	[ICRA]A (CE) (Stable)
NA	**Term Loans***	Nov 2024	~9.5%	Aug 2032	213.00	[ICRA]A (CE) (Stable)
NA	**LER/ Forward contract**	NA	NA	NA	5.20	[ICRA]A2+(CE)
NA	**Unallocated**	NA	NA	NA	3.80	[ICRA]A (CE) (Stable)/ [ICRA]A2+(CE)

*Source: Company; * total term loan sanctioned was Rs. 260 crore, however, the final drawdown amount is Rs. 213 crore only*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Shamsher Dewan
91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Uday Kumar
+91 124 4545 867
uday.kumar@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches