October 09, 2023

Vishwaraj Sugar Industries Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based – Cash Credit	295.00	[ICRA]BB+ (Stable); assigned
Long term – Fund-based – Term Loans	73.19	[ICRA]BB+ (Stable); assigned
Long term – Unallocated limits	16.81	[ICRA]BB+ (Stable); assigned
Total	**385.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned factors in extensive experience of the promoters of Vishwaraj Sugar Industries Limited (VSIL) in the sugar industry and partially forward integrated nature of the plant with 11,000 tonnes crushed per day (TCD) cane crushing capacity, 100 KLPD distillery for mainly rectified spirit (RS[1]) and ethanol (expanded from 35 KLPD in 2020 and under further expansion to 250 KLPD), and a ~36 MW cogeneration power plant The distillery segment's increasing contribution to the operating income lends more stability to the cash flows, besides contraction in inventory days, improving the working capital cycle.

The ratings draw comfort from VSIL's efficient operations with healthy recovery rates supporting its comfortable credit profile. The sugar mill's command area falls in North West Karnataka, which is high sugar recovery zone due to favorable agroclimatic conditions for sugarcane. The company's gross recovery rate for SY2023 stood at a healthy 11.82% (PY: 12.01%).

However, the rating is constrained by weak debt coverage metrics with total debt/OPBIDTA being 5.4 times in FY2023 (increased from 4.2 times in FY2022), which might moderate further if proposed distillery of ~150 KLPD gets funded by debt to a large extent. However, in case the proposed distillery gets funded by sizeable equity infusion, coverage metrics might improve. VSIL's interest coverage also declined to 2.4 times in FY2023 from 2.70 times in FY2022. The company's gearing stood at a relatively high level of 1.8 times as on Mar 31, 2023.

Higher diversion of sucrose towards ethanol, higher export sales (55,073 MT in FY2023 Vs 22,931 MT in FY2022) and stable domestic sales (58,055 MT in FY2023 Vs 59,945 MT in FY2022), has enabled VSIL to reduce its sugar inventory levels (sugar closing stock of 0.48 lakh MT as on March 31, 2023 vs 0.72 lakh MT as on March 31, 2022). VSIL has been manufacturing the alcohol/ethanol from B-heavy molasses as well as directly from cane syrup, with total diversion of sugar for production of alcohol/ethanol being ~15% in FY2023. This has led to improvement in the working capital intensity (NWC/OI at 55% in FY2023 against 69% in FY2022), even as it remains high. However, VSIL's operating profit margin (OPM) declined sharply to ~10.7% in FY2023 vs ~18.9% in FY2022 largely due to higher cost of production mainly due to cane procurement expenses and higher repair and maintenance/debottlenecking expenses towards existing plant.

However, with lower sugar closing stock as on March 31, 2023, moderations in sugarcance production levels and expectation of lower sugar sales quota allocation for FY2024, the revenues are expected to moderate by ~4-8% in FY2024, even as ethanol sales volumes are expected to increase by ~10%. Further, with expectation of lower OI in FY2024, but improvement in OPM, and stable sugar closing stock as on March 31, 2024, the NWC/OI is also expected to remain largely stable in FY2024. The revenue growth FY2025-FY2026 onwards would depend on the allocation of domestic and export sugar sales quotas.

ICRA further notes the sustained favourable Government policies such as introduction of the minimum selling price (MSP), interest subvention loans for ethanol capacity creation/ expansion, export subsidy to address the demand-supply situation in

[1] *RS is further processed for producing Vinegar, which is a more value-added product.*

the domestic market, are expected to support the company's financial profile. The rating also considers the inherent cyclicality and agro-climatic risks in sugar operations, along with its vulnerability to Government regulations.

The stable outlook reflects ICRA's expectation that the company would be able to ensure adequate cane availability and maintaining its operating profitability with expectations of stable demand for its sugar and allied products like ethanol/vinegar produced as well as realisations on the same.

Key rating drivers and their description

Credit strengths

Extensive track record of promoters in the sugar industry within Karnataka, forward-integrated operations – The promoters have a long-standing experience of over three decades in the sugar industry and has locational advantages ensuring steady availability of sugarcane. Established relationships with farmers in nearby areas, along with various support initiatives and timely payments, ensures good quality supply.

VSIL has a crushing capacity with 11,000 tonnes crushed per day (TCD) cane crushing capacity, 100 KLPD distillery for mainly rectified spirit (RS) and ethanol (expanded from 35 KLPD in 2020 and under further expansion to 250 KLPD), and a ~36 MW cogeneration power plant for captive power consumption as well as external sale of power. The integrated operation provides alternative revenue sources and cushions its profitability against the cyclicality in the sugar business, improving the stability of its operating profits.

Healthy recovery rates due locational advantages - The company's gross recovery rate for the sugar season slightly moderated to 11.82% in FY2023 from 12.08% in FY2022 owing to agro-climatic conditions but remained healthy. However, the net recovery rates moderated to 8.41% in FY2023 (PY: 11.70%) owing to the higher diversion of cane towards B-heavy molasses as well as direct cane syrup based ethanol. Healthy recovery rates over the years aided in reducing the company's cost of production. The gross recovery in FY2024 is also expected to be largely similar or moderate slightly due to forecast inadequate rainfall in Karnataka. Further, the net recovery is expected to remain largely stable.

Credit challenges

Modest capital structure and weak debt coverage metrics – VSIL's credit profile is characterized by weak debt coverage metrics with total debt/OPBIDTA being 5.4 times in FY2023 (increased from 4.2 times in FY2022), which might moderate further if proposed distillery of ~150 KLPD gets funded by debt to a large extent. However, in case the proposed distillery gets funded by sizeable equity infusion, coverage metrics might improve. Interest coverage also declined to 2.4 times in FY2023 from 2.70 times in FY2022. Gearing, stood at a relatively high level of 1.8 times as on Mar 31, 2023. With scheduled repayment of term debt, and disputed liability is respect of state purchase tax owed to GoK (Government of Karnataka) being converted to interest free debt of Rs ~28 crore in FY2023, total debt declined slightly to Rs 355.6 crore as on Mar 31, 2023 (Rs 100.70 crore term debt and balance being WC debt) from Rs 370.4 crore as on Mar 31, 2022.

Profitability reliant on Government policies – VSIL's profitability, along with other Karnataka-based sugar mills, continues to be vulnerable to the government's policy on cane prices, exports, minimum support price (MSP) and remunerative ethanol prices. Moreover, the cane production in the state remain vulnerable to monsoon performance.Thus, the company's performance can be impacted by a disproportionate increase in the net cane price. . However, the recent measures taken by the Central Government have supported sugar prices and the liquidity of sugar mills. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex are likely to prevent the piling up of cane arrears. Even as FRP increased by Rs. 10/quintal for SY2024, firm realisations and healthy sugar sales volumes, as well as enhanced ethanol volumes should support profits. Average domestic sugar realization improved by 4.2% in FY2023 to Rs ~33.5/kg, which is excpected to improve further to Rs ~34.5-35.0 in FY2024.

Profitability of sugar mills vulnerable to industry cyclicality and agro-climatic risks – Being an agri-commodity, the sugar cane crop depends on climatic conditions and is vulnerable to pests and diseases, which may influence the yield per hectare and the recovery rate. These factors can have a significant impact on the company's profitability. Further, high dependence on a single crop may affect the yield and recovery rate. Nonetheless, SSML has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclicality in sugar production results in a volatility in sugar prices. However, the sharp contraction in sugar prices is curtailed after the introduction of MSP by the Central Government. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice are expected to help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and in turn, cash flows from the sugar business.

Liquidity position: Adequate

The average utilisation of the working capital limit stood at Rs 113 crore, which is ~50% of the drawing power (DP) during the 18 months ended June-2023. In Q4FY2023, there has been enhancement of Rs 90 crore in the company's FB sanctioned limits to Rs 295 crore, with peak utilization at Rs 176 crore in FY2023 and Rs 192 crore in FY2022. However, in addition to the above, VSIL has extended corporate guarantee for Rs 80 crore sanctioned limits of its suppliers, which are mainly cane harvesters and transporters. Further, VSIL's CFO is expected to be adequate for servicing interest cost and scheduled debt repayments.

Rating sensitivities

Positive factors – An upgrade will be backed by a continued period of firm sugar prices, driven by favourable demand-supply dynamics and benefits from investments in forward integration, which will lower the volatility in cash flows from the sugar business and improve the operating profitability and debt coverage metrics on a sustained basis.

Negative factors – Pressure on the rating could emerge if any significant decline in sugar prices or recovery rate, or increase in cane costs, weakens the company's profitability and debt coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Sugar Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

VISL was incorporated in the year 1995 as a public limited company. The company has an integrated sugar production facility located at Bellad Bagewadi, Belgaum District in North West Karnataka. The Company is engaged in manufacturing of sugar, alcoholic spirits - ethanol, rectified spirit, vinegar. The company also has a co-generation unit, from which it exports surplus power. By-products such as bagasse and molasses are produced which are used as raw materials to generate power and distillery products, respectively.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	469.1	616.5
PAT	58.0	-26.9
OPBDIT/OI	18.9%	10.7%
PAT/OI	12.4%	-4.4%
Total outside liabilities/Tangible net worth (times)	1.7	1.8
Total debt/OPBDIT (times)	4.2	5.4
Interest coverage (times)	2.7	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of June 30, 2023 (Rs. crore)	Current rating (FY2024) Date & rating in FY2024	Chronology of rating history for the past 3 years Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Oct 09, 2023	-	-	-
1	Cash Credit	Long term	295.00	-	[ICRA]BB+ (Stable)	-	-	-
2	Term Loans	Long term	73.19	73.19	[ICRA]BB+ (Stable)	-	-	-
3	Unallocated limits	Long term	16.81	-	[ICRA]BB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund-based – Cash Credit	Simple
Long term – Fund-based – Term Loans	Simple
Long term – Unallocated limits	NA

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	**Long term - Fund-based – Cash Credit**	NA	NA	NA	295.00	[ICRA]BB+ (Stable)
NA	**Long term – Fund-based – Term Loans**	FY2021-FY2022	~9.5%-10.5%	FY2026-FY2029	73.19	[ICRA]BB+ (Stable)
NA	**Long term – Unallocated limits**	NA	NA	NA	16.81	[ICRA]BB+ (Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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