October 22, 2024

Vishwaraj Sugar Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund-based – Cash Credit	295.00	260.00	[ICRA]BB+ (Stable); reaffirmed
Long Term – Fund based - Term Loans	73.19	53.24	[ICRA]BB+ (Stable); reaffirmed
Long Term – Unallocated Limits	16.81	71.76	[ICRA]BB+ (Stable); reaffirmed
Total	**385.00**	**385.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings factor 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) and ethanol (expanded from 35 KLPD in 2020 and under further expansion to 250 KLPD over FY2024-FY2025), and a ~36 MW cogeneration power plant. The ratings also factor in expected improvement in scale of operations over FY2025-FY2027 with operationalization of new 150 KLPD multi-feed distillery in Q3FY2025. The distillery is expected to be run on grains (rice/maize) FY2026 onwards during the cane crushing off-season (April-September), which should lead to additional revenue stream apart from production of sugar/ethanol from cane. During the cane crushing season, VISL is expected to divert higher sugar towards ethanol production via syrup/B-heavy route. Improvement in scale of operations over the medium term is expected to be accompanied by higher diversification towards non-sugar revenues. The distillery segment's increasing contribution to the operating income will lend more stability to the cash flows, besides contraction in inventory days, thereby translating into likely improvement in the working capital cycle.

The ratings draw comfort from VSIL's healthy recovery rates supporting its 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 FY2024 stood at a healthy 11.36% (PY: 11.82%). However, cane crushing levels declined sharply by ~10% in FY2024 to 9.6 lakh MT due to adverse agro-climatic conditions, which also impacted recoveries. With expectation of a more favorable weather pattern in FY2025, cane crushing level as well as gross recoveries are expected to some improvement.

The rating is constrained by weak debt coverage metrics with total debt/OPBIDTA being 5.5 times in FY2024 (increased from 5.2 times in FY2023), which is expected to remain elevated and stable at current level with additional debt of Rs. 125 crore being availed for new distillery of ~150 KLPD in FY2025. VSIL's interest coverage also declined to 2.2 times in FY2024 from 2.50 times in FY2023, while DSCR improved slightly to 1.3 times in FY2024 vs 1 times in FY2023.

However, with the infusion of Rs. 99 crore equity via qualified institutional placement route in FY2025 (~50% infused in Sep-2024 and balance ~50% expected shortly in Oct/Nov-2024), capital structure is expected to witness some improvement in FY2025. While gearing was stable in FY2024 (1.4 times as on Mar-2024 as well as on Mar-2023), it is expected to improve as on Mar-2025 to around ~1.1-1.2 times. Similarly, TOL/TNW is also expected to improve to ~1.3-1.4 times as on Mar-2025, from 2.0 times as on Mar-2024. However, given the increase in long term debt for the capex, which has come at a relatively high cost (in absence of interest subvention), the coverage metrics are expected to continue to remain moderated, with expected interest coverage around ~2 times and DSCR around ~1.3x for FY2025.

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 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.

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 remained healthy but slightly moderated to ~11.36% in FY2024 from 11.82% in FY2023 owing to adverse agro-climatic conditions but remained healthy. With expectation of more favorable weather conditions, cane crushing as well as gross recoveries are expected to improve to some extent in FY2025. Net recovery in FY2024 stood at 8.95% vs 8.41% in FY2023 despite lower gross recovery due to lower diversion of sugar towards ethanol, as GOI restricted production of ethanol via syrup/B-heavy route. Hence, in FY2024 VSIL crushed some cane to produce C-heavy molasses (leading to lower sugar diversion), while entire cane in FY2023 was crushed to produce either syrup for ethanol or B-heavy molasses alongwith sugar. Diversion of sugar towards ethanol is expected to increase significantly in FY2025 with operationalisation of new distillery capacity, which should result in lower net recoveries of ~6.7-7%.

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 5.5 times in FY2024 (increased from 5.2 times in FY2023), which is expected to remain stable and elevated at current level in FY2025, but moderate thereafter with scheduled repayments of debt. The company has availed debt of Rs. 125 crore in FY2025 (@13% interest with no interest subvention; tenor of ~8 years) for its new 150 KLPD multi-feed distillery. Interest coverage also declined slightly to 2.2 times in FY2024 from 2.5 times in FY2023. VISL is working towards getting interest subvention approved for its new distillery.

The company did a QIP of Rs. 50 crore in H1FY2025 (another Rs. 49 crore expected in Q3FY2025), which had led to improvement in capital structure. While gearing was stable in FY2024 (1.4 times as on Mar-2024 as well as on Mar-2023), it is expected to improve as on Mar-2025 to around ~1.1-1.2 times. Similarly, TOL/TNW is also expected to improve to ~1.3-1.4 times as on Mar-2025, from 2.0 times as on Mar-2024, although coverage indicators are likely to continue to remain moderated with interest overage around 2x and DSCR at 1.3x for FY2025.

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 is likely to prevent the piling up of cane arrears. Even as FRP increased by Rs. 25/quintal for SY2025, firm realisations and healthy sugar sales volumes, as well as enhanced ethanol volumes should support profits. Average domestic sugar realization improved by 7% in FY2024 to Rs ~35.4/kg, which is expected to improve further to Rs ~35.5-36.0/kg in FY2025.

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, VISL 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 syrup 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. 130.55 crore which is ~80% of the drawing power (DP) during FY2024. While the utilization reached ~99% of DP in Aug-2024, it is estimated to have reduced in Sep-2024 with infusion of Rs. ~50 crore equity via QIP in Sep-2024, and balance Rs. 49 crore is expected in Q3FY2025. In addition to the above, VSIL has extended corporate guarantee for Rs. 80 crore sanctioned limits of its suppliers (these advances are classified as borrowings on VISL's balance sheet), which are mainly cane harvesters and transporters. Further, VSIL's cashflow from operations 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. Further, decline in interest coverage below 1.8 times on a sustained basis could also lead to a downward rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Sugar Corporate Credit Rating Methodology
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)

	FY2023	FY2024
Operating income	618.2	550.1
PAT	-25.2	14.8
OPBDIT/OI	11.0%	12.1%
PAT/OI	-4.1%	2.7%
Total outside liabilities/Tangible net worth (times)	1.8	2.0
Total debt/OPBDIT (times)	5.2	5.5
Interest coverage (times)	2.5	2.2

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

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	**Type**	**Amount Rated (Rs Crore)**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**
Cash Credit	Long term	260.00	Oct 22, 2024	[ICRA]BB+ (Stable)	Oct 09, 2023	[ICRA]BB+ (Stable)	-	-	-	-
Term Loans	Long term	53.24	Oct 22, 2024	[ICRA]BB+ (Stable)	Oct 09, 2023	[ICRA]BB+ (Stable)	-	-	-	-
Unallocated limits	Long term	71.76	Oct 22, 2024	[ICRA]BB+ (Stable)	Oct 09, 2023	[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	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	**Long term - Fund-based – Cash Credit**	NA	NA	NA	260.00	[ICRA]BB+ (Stable)
NA	**Long term – Fund-based – Term Loans**	FY2021-FY2022	~11%-13%	~FY2027-FY2033	53.24	[ICRA]BB+ (Stable)
NA	**Long term – Unallocated limits**	NA	NA	NA	71.76	[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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