

August 14, 2025

Dwarikesh Sugar Industries Limited: Ratings reaffirmed, outlook continues to be Negative

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long term - Fund based - Term loan	236.53	147.45	[ICRA]AA- (Negative); reaffirmed
Long term – Non-fund based - Working capital facilities	30.00	30.00	[ICRA]AA- (Negative); reaffirmed
Long term - Fund based - Working capital facilities	450.00	450.00	[ICRA]AA- (Negative); reaffirmed
Long term - Unallocated limits	83.47	22.55	[ICRA]AA- (Negative); reaffirmed
Total	800.00	650.00	
Commercial paper	300.00	300.00	[ICRA]A1+; reaffirmed

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation and continuation of Negative outlook on the long-term rating factors in the weak financial performance of Dwarikesh Sugar and Industries Limited (DSIL) in Q1 FY2026 due to early conclusion of the crushing operations for SY¹2025, with negligible sugarcane crushing and sugar production during the quarter. Additionally, distillery operations concluded in early June 2025, resulting in under-absorption of overhead costs and thereby impacting the profitability. The performance may improve in the coming quarters on expectations of increased cane availability in SY2026 and a more diversified mix, driven by the efforts towards crop protection and introduction of new varieties. However, the extent of the improvement in revenues and profitability over the coming quarters remains to be seen.

The ratings continue to positively factor in DSIL's efficient operations with comfortable recovery rates in the past that have supported its credit profile over the years. Moreover, being forward integrated into co-generation and distillery operations, the company benefits from access to alternative revenue streams, which act as a cushion against the cyclicity of the sugar business. ICRA also notes the comfortable capital structure of the company with a gearing of 0.6x as of March 2025.

The ratings, however, remain constrained by the high working capital intensity of DSIL's operations with NWC/OI at 54% in FY2025 due to the elevated inventory holding. The inventory is expected to stay high as of year-end due to the nature of the sugar business, resulting in increased short-term borrowing. The debt coverage indicators of the company also weakened in FY2025 due to lower operating profitability and higher year-end working capital debt with total debt/OPBDITA at 4.5x (P.Y.-2.2x), interest cover of 6.1x (P.Y.-10.2x), and DSCR of 1.3x (P.Y.-2.1x).

The ratings also remain constrained by the vulnerability of DSIL's profitability to the cyclical nature of the sugar industry (though the sharp fall in sugar prices has been curtailed after the introduction of MSP) and the agro-climatic risks related to cane production. Further, the profitability of sugar mills, including DSIL, is exposed to the policies of the Government of UP (GoUP) and the Central Government on cane prices, sugar international trade, domestic sugar quota, policy related to ethanol blending, sugar and ethanol pricing and interest subvention loan for distillery capacity expansion.

The Negative outlook on the long-term rating reflects the sustained pressure on the operating margins mainly due to the absence of cane crushing in Q1 FY2026 along with an early conclusion of the distillery operations in June 2025.

¹ Sugar year

Key rating drivers and their description

Credit strengths

Forward-integrated operations - DSIL operates sugar capacities of 21,500 tonnes crushed per day (TCD) at its three mills in UP. The operations are forward-integrated into the power and alcohol businesses — co-generation capacity of 94 megawatt (surplus – 54 MW) and distillery capacity of 337.5 kilolitres per day (KLPD) as on June 30, 2025. The integrated operation provides alternative revenues and cushions the profitability against the cyclicity in the sugar business. In FY2025, the sugar and co-generation businesses accounted for 77% of the company's revenue, while the distillery segment contributed ~23% (declined from 28% in FY2024) to the total revenue. The distillery sales declined YoY in FY2025 due to the restrictions imposed on the diversion of sugar towards ethanol for ESY²2024. The revenue contribution from the distillery division is expected to improve, going forward, supported by higher sugar diversion for ethanol production in ESY2025 and ESY2026.

Operationally-efficient sugar mills with comfortable recovery rates - The company remained operationally efficient over the years, which supported its credit profile. However, in SY2024 and SY2025, the cane crushing declined to 26.8 lakh metric tonnes (MT) from 30.3 lakh MT in SY2023, mainly due to the red rot infestation, resulting in an early conclusion of the crushing operations in Q1 FY2026. The company's gross recovery rate for the sugar season moderated to 10.96% in SY2025 from 11.56% in SY2024 owing to the red rot infestation and an unfavourable weather. In SY2026, ICRA projects the cane crushing and recovery rates to improve due to varietal changes and favourable weather conditions that would increase the cane availability and yield.

Favourable policy framework supports profits and cash accruals - The Government of India (GoI) has been supporting the sugar industry through various measures, such as continuation of the minimum selling price (MSP), soft loans for clearing cane dues, interest subvention loans for ethanol capacity creation and expansion and timely price revisions for ethanol, which have supported the company's financial profile. The favourable pricing, coupled with a relatively short credit period for ethanol supplies, has supported the profits and cash accruals of various medium to large-sized sugar mills.

Credit challenges

Moderate coverage indicators and high working capital intensity - The company's working capital intensity remained high with NWC/OI at 54% in FY2025 due to the elevated inventory holding. The inventory is expected to stay high as of year-end due to the nature of the sugar business, resulting in increased short-term working capital borrowing. In FY2025, the debt coverage indicators weakened due to lower operating profitability and higher year-end short-term debt with total debt/OPBDITA at 4.5x (P.Y. - 2.2x), interest cover of 6.1x (P.Y. - 10.2x) and a DSCR of 1.3x (P.Y. - 2.1x). The revenue and profitability remained weak in Q1 FY2026 mainly due to an early conclusion of the crushing season as well as distillery operations. Nevertheless, an improvement is expected in H2 FY2026, though the extent of the improvement over the coming quarters remains a key monitorable for the company.

Profitability vulnerable to policy interventions by the Government - DSIL's profitability, along with other sugar mills, continues to be vulnerable to the state government and the Central Government's policy on cane prices. Thus, the company's performance can be adversely impacted by a disproportionate increase in cane prices in any particular year. Further, the profitability remains vulnerable to the Government's policies on sugar international trade, domestic quota, sugar MSP, remunerative ethanol prices and interest subvention loan for distillery capacity expansion. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. Additionally, firm domestic prices and increased contribution from ethanol supplies are likely to offset this risk to some extent for integrated sugar mills.

Profitability of sugar mills vulnerable to industry cyclicity and agro-climatic risks - Being an agri-commodity, the sugarcane crop is dependent on climatic conditions and vulnerable to pests and diseases that may not only impact the yield per hectare

² Ethanol supply year

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. However, DSIL has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclical nature in sugar production results in a volatility in sugar prices. However, the sharp downfall in sugar prices has been curtailed after the introduction of MSP by the Central Government in June 2018. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice-based ethanol will help curtail the excess supply of sugar, resulting in lower volatility in sugar prices, and hence, increase the cash flows from the sugar business.

Environment and social risks

Environmental considerations - Sugar entities like DSIL are directly exposed to climate risks, which affect sugarcane production and yield. Further, excessive or deficient rainfall affects cane availability. However, the company's sugar facilities are in UP, having high sugar recovery rates and a longer crushing season with adequate availability of cane, thereby mitigating the climatic risks to a certain extent. Nevertheless, the company remains exposed to raw material availability which can be impacted by red rot disease or unseasonal and heavy rainfall, as was seen in the recent past.

Social considerations - The worldwide societal shift to less sugar-intensive food products considering the health issues related to high sugar consumption could structurally reduce the demand for sugar products. However, such changes in consumer behaviour or any other driver of change are expected to be relatively slow paced. Therefore, while DSIL remains exposed to the aforementioned social risk, it is not likely to materially affect its credit profile in the medium term, given the increasing sucrose diversion towards ethanol.

Liquidity position: Adequate

DSIL's liquidity position remains adequate with free cash and bank balance of Rs. 106 crore as of July 2025 and cushion available from working capital limits. This is against a debt repayment of ~Rs. 55 crore in FY2026 and ~Rs. 37 crore in FY2027. ICRA expects DSIL to comfortably meet its debt repayment obligations in the medium term, supported by the available liquidity and adequate cash flow from operations.

Rating sensitivities

Positive factors – An upgrade over the near term is unlikely. However, the outlook could be revised to Stable if the company is able to show a healthy growth in its earnings and diversify its revenues that would help improve the debt coverage metrics, while maintaining a comfortable liquidity position.

Negative factors – ICRA could revise the ratings downwards if there is any sharp drop in revenues and profitability along with a significant decline in the ethanol business that would weaken the debt coverage metrics. A specific metric for an unfavourable rating action would be an interest cover of below 7 times on a sustained basis.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Sugar Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

DSIL, promoted by Mr. Gautam R. Moraraka, was incorporated in 1994 with the establishment of a 2,500-TCD sugar plant in the sugar-rich belt of UP at Bundki village in the Bijnor district. DSIL operates as an integrated sugar player with a current cane crushing capacity of 21,500 TCD, a distillery capacity of 337.5 kilolitres per day (KLPD) and a co-generation capacity of 94 megawatt (MW). The operations of the company are spread across three sugar plants, i.e. Dwarikesh Nagar (DN), Dwarikesh Puram (DP) and Dwarikesh Dham (DD) in Uttar Pradesh.

Key financial indicators (audited)

Standalone	FY2024	FY2025	Q1FY2026
Operating income	1709.6	1358.9	405.5
PAT	83.5	23.3	(9.4)
OPBDITA/OI (%)	12.0%	8.4%	1.0%
PAT/OI (%)	4.9%	1.7%	-2.3%
Total outside liabilities/Tangible net worth (times)	0.7	0.8	-
Total debt/OPBDITA (times)	2.2	4.5	-
Interest coverage (times)	10.2	6.1	0.7

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDITA: 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 rating (FY2026)				Chronology of rating history for the past 3 years					
			FY2026		FY2025		FY2024		FY2023	
	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund based - Working capital facilities	Long term	450.00	Aug 14, 2025	[ICRA]AA-(Negative)	Nov 07, 2024	[ICRA]AA-(Negative)	Feb 28, 2024	[ICRA]AA-(Stable)	Jun 14, 2022	[ICRA]A+(Positive)
			-		-	-	-	-	Feb 07, 2023	[ICRA]AA-(Stable)
Non-fund based - Working capital facilities	Long term	30.00	Aug 14, 2025	[ICRA]AA-(Negative)	Nov 07, 2024	[ICRA]AA-(Negative)	Feb 28, 2024	[ICRA]AA-(Stable)	Jun 14, 2022	[ICRA]A+(Positive)
			-		-	-	-	-	Feb 07, 2023	[ICRA]AA-(Stable)

Fund based - Term loan	Long term	147.45	Aug 14, 2025	[ICRA]AA- (Negative)	Nov 07, 2024	[ICRA]AA- (Negative)	Feb 28, 2024	[ICRA]AA- (Stable)	Jun 14, 2022	[ICRA]A+ (Positive)
			-		-	-	-	-	Feb 07, 2023	[ICRA]AA- (Stable)
Unallocated limits	Long term	22.55	Aug 14, 2025	[ICRA]AA- (Negative)	Nov 07, 2024	[ICRA]AA- (Negative)	Feb 28, 2024	[ICRA]AA- (Stable)	Jun 14, 2022	[ICRA]A+ (Positive)
			-		-	-	-	-	Feb 07, 2023	[ICRA]AA- (Stable)
Commercial paper	Short term	300.00	Aug 14, 2025	[ICRA]A1+	Nov 07, 2024	[ICRA]A1+	Feb 28, 2024	[ICRA]A1+	Jun 14, 2022	[ICRA]A1+
			-		-	-	-	-	Feb 07, 2023	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity indicator
Long term - Fund based - Term loan	Simple
Long term – Non-fund based - Working capital facilities	Very Simple
Long term - Fund based - Working capital facilities	Simple
Commercial paper	Very 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/sanction	Coupon rate	Maturity date	Amount rated (Rs. crore)	Current rating and outlook
NA	Long term - Fund based - Term loan	Nov 2018-Aug 2021	5%-8.65%	Jun 2024-Sep 2028	147.45	[ICRA]AA- (Negative)
NA	Long term – Non-fund based - Working capital facilities	-	-	-	30.00	[ICRA]AA- (Negative)
NA	Long term - Fund based - Working capital facilities	-	-	-	450.00	[ICRA]AA- (Negative)
NA	Long term - Unallocated limits	-	-	-	22.55	[ICRA]AA- (Negative)
Yet to be placed	Commercial paper	-	-	-	300.00	[ICRA]A1+

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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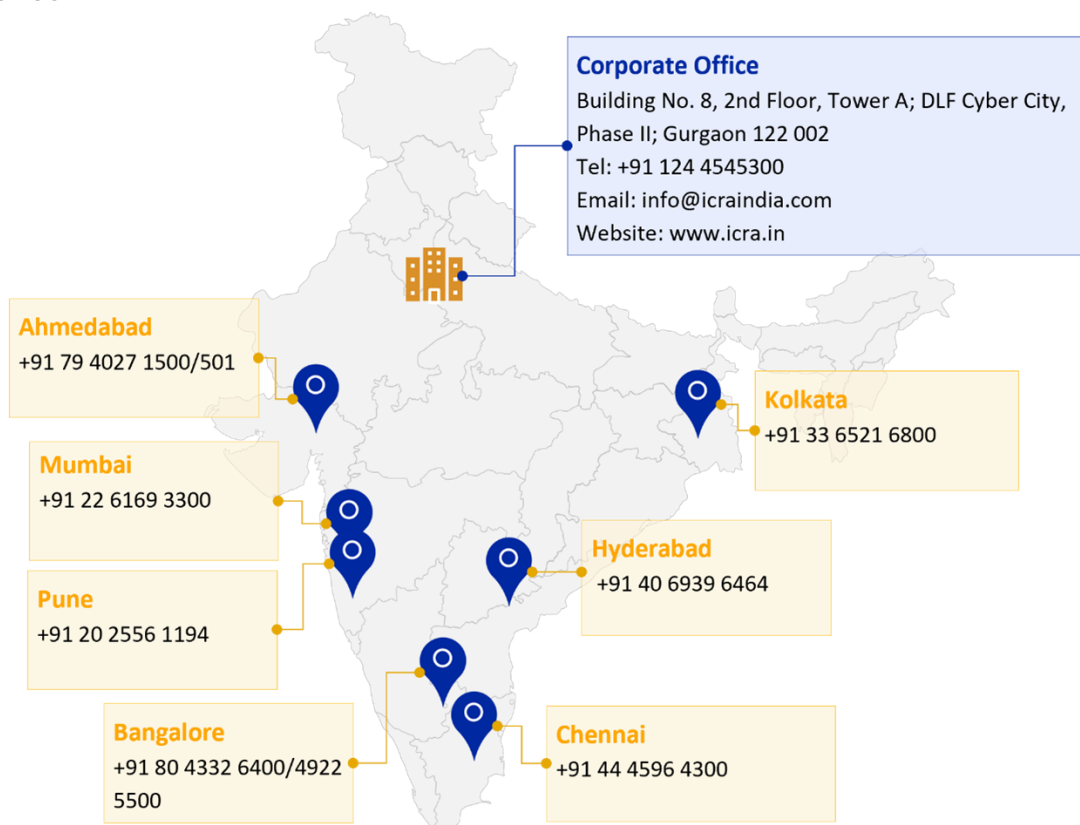


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