November 27, 2025

Vishwaraj Sugar Industries Limited: Ratings downgraded to [ICRA]BB (Stable)

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-Term - Fund-based – Cash Credit	260.00	260.00	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Stable)
Long-Term - Fund-based – Term Loans	53.24	32.88	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Stable)
Long-Term – Unallocated Limits	71.76	92.12	[ICRA]BB (Stable); downgraded from [ICRA]BB+ (Stable)
Total	**385.00**	**385.00**	

**Instrument details are provided in Annexure I*

Rationale

The downgrade in the ratings of Vishwaraj Sugar Industries Limited (VSIL) factors in a sharp deterioration in company's profitability and debt metrices in FY2025. Due to adverse agro-climatic conditions, cane availability and sugar production declined for the entire country in SY2025 (sugar year). VSIL was also impacted by lower cane availability resulting in a decline in cane crushing volumes to 7.44 lakh MT in FY2025 from 9.58 lakh MT during FY2024. This led to lower sugar and ethanol production resulting in 17.4% YoY decline in OI (operating income) to Rs. 454 crore in FY2025. Further, profitability was impacted by lower operating leverage as well as higher cane procurement costs, partly offset by slightly higher sugar realisations. Procurement of ethanol via juice/syrup route was curtailed by the government in FY2025 due to concerns over sugar production in the country, which also impacted profitability as ethanol is more profitable than sugar and has a better payment cycle. Consequently, OPM witnessed significant decline to 2.7% in FY2025 vs 12.2%/10.8% in FY2025/FY2024. OI stood at Rs. 188 crore in H1FY2026 (-3% YoY) due to lower opening stock of sugar.

However, with improved monsoon witnessed in the current sugar year, cane harvest is expected to significantly improve during FY2026, which should lead to improvement in cane crushing by VSIL as well. Further, expectation of higher diversion towards ethanol should also aid profitability in FY2026, with operationalization of the new 150 kilo litres per day (KLPD) distillery expected in Q4FY2026 (delayed by almost an year). It is expected to be run on grains such as maize and broken rice during sugar off-season, further aiding revenues. The capex for the distillery is being funded by Rs. 50 crore QIP done in FY2025, Rs. 125 crore term debt (@13% interest rate without interest subvention), and internal accruals. However, ICRA notes that despite factoring in expectation of improvement in operating performance, debt metrices would remain weak through FY2026-FY2027. Company has been in breach of negative trigger of interest cover being less than 1.8 for FY2025, and interest cover is expected to be below 1.8 times during FY2026-FY2027 as well, and the same remains a key monitorable.

The ratings continue to factor in extensive experience of the promoters of 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 by 150 KLPD over FY2024-FY2026), and a ~36 MW cogeneration power plant. The ratings also factor in expected improvement in scale of operations over FY2026-FY2028 with operationalization of new 150 KLPD multi-feed distillery in Q4FY2026. The distillery is expected to be run on grains (rice/maize) FY2027 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, VSIL is expected to divert higher sugar towards ethanol production via syrup/B-heavy routes. 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 a high sugar recovery zone due to favorable agroclimatic conditions for sugarcane. The company's gross recovery rate for FY2025 stood at a healthy 11.54% (PY: 11.36%). However, cane crushing levels declined sharply by ~22% in FY2025 (on the back of ~10% decline in FY2024) due to adverse agro-climatic conditions, which also impacted recoveries. With expectation of a more favorable weather pattern in FY2026, cane crushing level as well as gross recoveries are expected to witness some improvement.

The rating is constrained by weak debt coverage metrics with total debt/OPBIDTA being ~32 times in FY2025 (increased from 5.5 times in FY2024), which is expected to improve but remain elevated at ~12-16 times in FY2026, and improve to less than ~7 times thereafter in FY2027. Deterioration in the coverage metrics has been driven by additional debt of Rs. 125 crore being availed for new distillery of ~150 KLPD in FY2025. VSIL's interest coverage also declined to 0.4 times in FY2025 from 2.2 times in FY2024, which is much weaker than expected. Gearing was stable at 1.4 times in FY2025 despite Rs. 50 crore QIP, owing to higher debt, and is expected to slightly inch up over FY2026-FY2028. Similarly, TOL/TNW also remained stable and moderately elevated at ~2 times as on Mar-2025.

ICRA further notes the sustained favourable Government policies 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 by 150 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 and slightly improved to ~11.54% in FY2025 from 11.36% in FY2024. With expectation of better cane availability in FY2026 due to favorable agro-climatic conditions in the state, revenues as well as OPM are expected to witness rebound in H2FY2026. Net recovery in FY2025 stood at 7.42% vs 8.95% in FY2024 partly to lower gross recoveries, and partly due to higher diversion of sugar towards ethanol. Diversion of sugar towards ethanol is expected to increase in FY2026 with operationalisation of new distillery capacity, which should result in lower net recoveries of sugar.

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 32.3 times in FY2025 (increased significantly from 5.4 times in FY2024), which is expected to improve but remain elevated at ~12-16 times in FY2026 and improve to less than ~7 times thereafter in FY2027, largely driven by improvement in OPBIDTA. The company had 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 0.4 times in FY2025 from 2.2 times in FY2024.

The company did a QIP of Rs. 50 crore in FY2025, which had led to improvement in capital structure. While gearing was stable in FY2025 (1.4 times as on March 31, 2025 as well as on March 31, 2024), it is expected to slightly inch up over FY2026-FY2028. Similarly, TOL/TNW is also expected to increase slightly to ~2.0-2.2 times as on March 31, 2026, from 1.9 times as on March

31, 2025. DSCR was below 1 times in FY2025, and is expected to be below 1 times in FY2026 as well, and should see gradual improvement thereafter.

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 remains vulnerable to monsoon performance. Thus, the company's performance can be impacted by a disproportionate increase in the net cane price. Further, after recent strikes by farmers for increase in minimum cane procurement price (excluding harvesting and transportation expenses), Karnataka state government increased cane price for SY2026 to Rs. 3300/MT from Rs. 3200/MT for basic recovery rate of 11.25%. Of this Rs. 50/MT is to be borne by factory, and Rs. 50/MT subsidy will be offered by the state government.

Moreover, procurement of ethanol via juice route was curtailed by the government in FY2025 due to concerns over sugar production, which also impacted profitability as ethanol is more profitable than sugar and has a better payment cycle. Average domestic sugar realization improved by 7%/2% YoY in FY2024/FY2025 to Rs ~36/kg. However, during FY2025, rise in cane costs per MT has been higher than the rise in realisations (sugar as well ethanol). Realisations improved by ~5% in H1FY2026 to Rs. ~37.5-38.0/kg, which is expected to remain largely stable in H2FY2026.

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: Stretched

The average utilisation of the working capital limit stood at Rs. ~100 crore which is ~80% of the drawing power (DP) during Apr-2024 to Aug-2025 (17 months). Utilisation reaches ~99% of DP in some of the peak sugar production months.

In addition to the above, VSIL has extended corporate guarantee for Rs. ~85 crore sanctioned limits of its suppliers (these advances are classified as borrowings on VSIL's balance sheet), which are mainly cane harvesters and transporters. Further, VSIL's cashflow from operations might be inadequate for servicing interest cost and scheduled debt repayments, and company would have to rely on cushion in DP for the same.

Rating sensitivities

Positive factors – An upgrade will be backed by an improvement in the interest coverage ratio to above 1.75 times on a sustained basis and with overall stabilization of debt coverage metrics supported by improvement in operating profitability, which will depend on 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.

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

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 Northwest 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)

VSIL (Standalone)	FY2024	FY2025	H1 FY2026
Operating income	550.0	454.3	188.1
PAT	14.5	-37.0	-30.8
OPBDIT/OI	12.2%	2.7%	-7.5%
PAT/OI	2.6%	-8.1%	-16.4%
Total outside liabilities/Tangible net worth (times)	2.0	1.9	1.6
Total debt/OPBDIT (times)	5.4	32.3	NM
Interest coverage (times)	2.2	0.4	-1.3

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; NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2026)				Chronology of rating history for the past 3 years					
			FY2026		FY2025		FY2024		FY2023	
Instrument	Type	Amount Rated (Rs Crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long term	260.00	Nov 27, 2025	[ICRA]BB (Stable)	Oct 22, 2024	[ICRA]BB+ (Stable)	Oct 09, 2023	[ICRA]BB+ (Stable)	-	-
Term Loans	Long term	32.88	Nov 27, 2025	[ICRA]BB (Stable)	Oct 22, 2024	[ICRA]BB+ (Stable)	Oct 09, 2023	[ICRA]BB+ (Stable)	-	-
Unallocated limits	Long term	92.12	Nov 27, 2025	[ICRA]BB (Stable)	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	32.88	[ICRA]BB (Stable)
NA	**Long-Term – Unallocated Limits**	NA	NA	NA	92.12	[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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