July 12, 2019

Shree Renuka Sugars Limited: Long-term and short-term ratings reaffirmed and continues to remain on watch with developing implications; rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Term Loans	1286.4	1286.4	[ICRA]BBB+& reaffirmed
Cash Credit	181.0	581.0	[ICRA]BBB+& reaffirmed
Letter of credit	1124.2	1124.2	[ICRA]A2& reaffirmed
Non-convertible debenture (NCD)#	552.1	552.1	[ICRA]BBB+& reaffirmed
Total	**3143.7**	**3543.7**	

* instrument details are provided in Annexure-1

#subscribed by the lenders as part of the debt restructuring exercise

&-rating watch with developing implication

Rationale

The ratings reaffirmation takes into account the strong parentage for SRSL with Wilmar Sugar Holdings Pte. Ltd (WSHL), wholly owned subsidiary of Wilmar International Limited (WIL), being the majority shareholder in SRSL and holds ~58% stake in the company. The ratings are supported by the corporate guarantee extended by WIL on the bank term loans and working capital debt amounting to Rs. 2904 crore. While the corporate guarantee support is not applicable on the 0.01% NCD, ICRA has taken comfort from the presence of a cross-default clause which states that non-payment of principal amount of 0.01% NCD will be considered as an event of default and will result into an acceleration of Corporate Guarantee of Wilmar International Limited (WIL) on the term loans and the working capital debt amounting to Rs. 2504 crore. While the cash flows at a standalone level may remain subdued owing to the high debt levels, ICRA continues to expect timely infusion of funds from the Wilmar Group, in case of any liquidity mismatch, to meet the debt servicing obligations.

The ratings continue to remain on watch with developing implications as some of the lenders have classified the company as non-performing asset (NPA) with Reserve Bank of India (RBI) asking them to categorise the loan account of the company as NPA in March 2019. As per the revised RBI circular on restructuring an account cannot be upgraded before one year from the commencement of the first payment of interest or principal (whichever is later) on the credit facility with longest period of moratorium. While the classification as NPA has not led to any increase in the interest expenses, the same impacts the ability of the company to raise fresh loans for any capex/working capital requirements. ICRA will closely monitor the developments and would keep the investors updated in case of any resolution of the issue.

The ratings are further supported by the company's complete forward integration into distillery and co-generation operations and advantage of the sugar facilities being located in states of Maharashtra and Karnataka which are regions with high sugar recovery rates, longer crushing season and relatively flexible Fair & Remunerative Price (FRP) based cane price regime. ICRA also takes a note of the fact that Brazilian subsidiary operations of SRSL are currently under bankruptcy and the company does not have any recourse to the debt liabilities of the Brazilian subsidiary. Further, the company has completely written-off its investments and loans to the Brazilian subsidiaries during FY2018 which, however, resulted in significant erosion of net-worth.

The ratings, however, remain constrained by the high debt levels, weak capital structure and modest expected debt coverage indicators owing to the oversupply scenario in the domestic sugar sector which will keep the domestic sugar prices at subdued levels. While the recent support measures taken by the Government of India (GoI) for the sugar industry, such as increase in the minimum support price (MSP) to Rs. 31/kg from Rs. 29/kg, the interest subvention loans for ethanol expansion and the recently approved soft loans by Central Government are likely to support the overall liquidity profile of the company.

The ratings are further constrained by risks associated with the inherent cyclicality in the sugar business; the agro-climactic conditions related to cane production; the Government policies on import duties, the pricing and offtake of cogeneration power and ethanol; and counterparty credit risk associated with the sale of power to the utility in Maharashtra. The company's operations are also exposed to the risk of price fluctuations impacting the spread available between raw and white sugar in its sugar refining business.

Key rating drivers:

Credit strengths

Subsidiary of Wilmar International Limited- Post the debt restructuring exercise and the subsequent open offer, SRSL has become a subsidiary of Wilmar International Limited (WIL). Wilmar Group's business activities include oil palm cultivation, oilseeds crushing, edible oils refining, sugar, specialty fats, oleochemicals and biodiesel manufacturing and grains processing. The company is one of the largest global processor and merchandiser of palm and lauric oils. On a consolidated level, WIL reported revenues of USD 44,695 million in FY 2018 (Jan 2018-Dec 2018) with operating margins of ~5.9% and net margins of ~2.0%. Being a large trading house, the total debt levels for the Group has remained high and stood at ~ USD 23,345 million, almost 80-85% of which is contributed by working capital debt. However, the net debt of the Group [Gross debt less cash, bank balances and other deposits with financial institutions] stood at USD 13,460 million.

The ratings are supported by corporate guarantees extended by WIL to secure bank loans amounting to Rs. 2904 crore in aggregate. While no corporate guarantee support is applicable on the 0.01% NCD, ICRA has taken comfort from the presence of a cross-default clause which states that non-payment of principal amount of 0.01% NCD is considered an event of default which may lead to an acceleration of Corporate Guarantee extended by WIL for bank loans amounting to Rs. 2504 crore. While the cash flows at a standalone level may remain subdued owing to the high debt levels, ICRA continues to expect timely infusion of funds from the Wilmar Group, in case of any liquidity mismatch, to meet the debt servicing obligations.

Fully forward integrated into distillery and co-generation operations resulting in substantial de-risking of core sugar business- The company is forward integrated into distillery and co-generation operations that de-risks the core sugar business of the company and supports its profitability during periods of sugar cyclicality. During FY2019, the company reported sales of Rs. 528.6 crore from the ethanol division with PBIT margin of ~ 21%.

Locational advantage for the refinery business; the business to benefit through synergy with WIL's international presence in sugar and commodity business - The company's refining units enjoy locational advantages being situated close to the ports, since bulk of the raw material is imported, while a significant portion of the refined sugar is exported to foreign markets. Since the company procures the raw sugar from international markets against favourable supplier terms, it operates on a negative working capital cycle which reduces the interest burden. The business is also getting benefited through the operational synergies with Wilmar International, which is one of the largest sugar trader in the world.

Government's measure to support sugar prices and sugar mills' liquidity – The Government of India (GoI) has approved soft loans (interest subvention at 7%) worth of Rs. 10,540 crore to be used for making cane payments and interest subvention loans of Rs. 12,900 crore for ethanol capacity augmentation. While the former announcement is likely to support the liquidity of mills in the near term, the latter is likely to address the current supply-demand imbalance in the industry over the medium term and help meet the 10% blending target under the Ethanol Blending Programme (EBP). The Government has also increased the MSP of sugar to Rs. 31/kg from Rs. 29/kg which is expected to support the profitability of the sugar business during FY 2020.

Credit challenges

Financial profile continues to remain stretched- While the debt levels for the company have reduced post the restructuring exercise, it continues to remain high. Consequently, owing to the oversupply scenario in the domestic sugar sector and subdued sugar prices in FY2019, the debt coverage metrics for the company, at a standalone level, remained weak. Also, the company has completely written-off its investments and loans to the Brazilian subsidiaries during FY2018, which has, resulted in significant erosion of net-worth.

High cane procurement cost: Owing to lower cane availability, cane procurement cost for the company remained high over the last few years which kept the contribution margins in the sugar business at subdued level. Going forward, ability of the company to reduce the cane procurement cost will remain highly critical for improving the contribution margins in the sugar business. During FY2019, the company reported sales of Rs. 3689 crore from the sugar division (includes refinery) with PBIT margin of ~ -1.05%.

Operations exposed to agro-climatic risks and cyclical trends in sugar business- The operations of the company remain exposed to the agro-climatic and cyclical risks associated with sugarcane production. During SY 2017 and SY 2018, the cane availability remained low vis-à-vis the historical volumes, which not only impacted the sugar business, but also impacted the overall volumes in the distillery and cogeneration business. While the cane availability improved in FY2019 which resulted in higher cane crushing volumes, the same may decline next year owing to the lower rainfall in the catchment area over the last two years resulting in lower sowing.

Vulnerability to government/regulatory policies- The sugar industry is highly regulated, with various Government Acts governing virtually all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by-product pricing.

Exposure of the company's trading business to market risks, especially price fluctuations- The company is also engaged in trading of raw sugar, white sugar and certain distillery products and remains exposed to price fluctuations.

Liquidity position

While at a standalone level, the liquidity profile of the company remains stretched, the overall liquidity position of the company is supported by trade advances from Wilmar International. As on March 31, 2019, Wilmar International has extended trade advances which has been utilized to meet the working capital requirements. Going forward, ability of the company to meet the debt servicing requirements will remain contingent on the timely infusion of funds from Wilmar International.

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 consolidated financial profile of the company. The list of companies that are consolidated to arrive at the rating are given in Annexure 2 below.

About the company:

Shree Renuka Sugars Limited (SRSL) is one of the largest private sector sugar manufacturers in the country with a combined crushing capacity of about 42,000 TCD (across seven units) in India. The plants in India are located in the states of Maharashtra and Karnataka.

SRSL has been one of the first mills to be fully forward integrated into distillery (using molasses, a by-product of sugar) and co-generation (based on bagasse) operations. SRSL mainly manufactures fuel grade ethanol that can be blended with petrol. The distillery capacity for the company stands at 930 KLPD (630 KLPD from molasses to ethanol and 300 KLPD from rectified spirit to ethanol). The company has a total co-generation capacity of 584 MW with a total exportable surplus of 356 MW. The company also carries out refining activity, i.e. conversion of raw sugar to white sugar, from its 2,500 TPD unit at Haldia (West Bengal) and 3,000 TPD unit at Kandla (Gujarat).

Key financial indicators (Audited)

	FY2018	FY2019
Operating Income (Rs. crore)	5847.6	4449.7
PAT (Rs. crore)	-2982.1	-381.9
OPBDIT/OI (%)	-3.0%	8.5%
RoCE (%)	-91.9%	2.6%
Total Debt/TNW (times)	-11.0	-5.1
Total Debt/OPBDIT (times)	-13.6	7.1
Interest Coverage (times)	-0.3	0.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding June 19 (Rs. crore)	Date & Rating		Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
					July 2019	April 2019	July 2018	August 2017	-
1	Term Loans	Long Term	1286.4	1153.3	[ICRA]BBB+ &	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]D	-
2	Fund Based Limits	Long Term	581.0	581.0	[ICRA]BBB+ &	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	[ICRA]D	
3	Non-Fund Based Limits	Short Term	1124.2	1124.2	[ICRA]A2&	[ICRA]A2&	[ICRA]A2	[ICRA]D	
4	NCD	Long Term	552.1	552.1	[ICRA]BBB+ &	[ICRA]BBB+ &	[ICRA]BBB+ (Stable)	-	-

&-rating watch with developing implication

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

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Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loans	-	10-12%	FY 2029	1286.4	[ICRA]BBB+ &
-	Fund Based Limits	-	-	-	581.0	[ICRA]BBB+ &
-	Non-Fund Based Limits	-	-	-	1124.2	[ICRA]A2&
-	NCD*	-	0.01%	FY2027	552.1	[ICRA]BBB+ &

*subscribed by the lenders as part of the debt restructuring exercise
Source: Shree Renuka Sugars Limited
&-rating watch with developing implication

Annexure-2: List of companies considered for consolidation

Company Name	Ownership	Consolidation Approach
Gokak Sugars Limited	93.64%	Fully consolidated
KBK Chem-Engineering Private Limited, India	100%	Fully consolidated
Renuka Commodities DMCC, United Arab Emirates	100%	Fully consolidated
Shree Renuka Agri Ventures Limited, India	100%	Fully consolidated
Monica Trading Private Limited, India	100%	Fully consolidated
Shree Renuka Tunaport Private Limited, India	99.99%	Fully consolidated
Shree Renuka East Africa Agri ventures PLC, Ethiopia	100%	Fully consolidated
Lanka Sugar Refinery Company (Private) Limited. Srilanka	100%	Fully consolidated

Source: Shree Renuka Sugars Limited

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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