ICRA

October 29, 2020

# Shree Renuka Sugars Limited: Ratings continue to be on watch with developing implications; rated amount reduced

## Summary of rating action

| Instrument | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term, fund-based NCD | 552.10 | 26.50 | [ICRA]BBB+ &; continues to be on watch with developing implications |
| Long-term, fund-based term loans | 1286.40 | 133.99 | [ICRA]BBB+ &; continues to be on watch with developing implications |
| Long-term, fund-based cash credit | 581.00 | - | - |
| Short-term, non-fund based letter of credit | 1124.20 | - | - |
| Short-term fund-based working capital demand loan | - | 400.00 | [ICRA]A2 &; continues to be on watch with developing implications |
| **Total** | **3543.70** | **560.49** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating considers the strengths that Shree Renuka Sugars Limited (SRSL) derives by virtue of having Wilmar Sugar Holdings Pte. Ltd (WSH) as a parent. WSH is a wholly owned subsidiary of Wilmar International Limited (WIL) and the majority shareholder in SRSL with ~62% stake. The ratings are supported by the corporate guarantee extended by WIL on the bank term loans and working capital debt worth Rs. 2904 crore (now reduced to Rs. 500 crore). While the corporate guarantee is not applicable on the 0.01% NCD, ICRA takes 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 in an acceleration of WIL's corporate guarantee on the term loans and working capital debt worth Rs. 2504 crore (now reduced to Rs. 100 crore). The ratings also draw comfort from the strong and continued funding support provided by the parent to SRSL over the past two fiscals, in the form of trade advances and trade payables to meet its working capital requirements. While the cash flows at a standalone level may remain subdued, ICRA continues to expect timely infusion of funds from the Wilmar Group, in case of any liquidity mismatch.

The ratings continue to be on watch with developing implications as the complete resolution of the issue related to classification of SRSL's account as non-performing asset (NPA) is still in process. Despite the regular debt servicing track record post successful implementation of the debt restructuring plan in March 2018, the company's account is classified as NPA by lenders, in compliance with the directive issued to them by the RBI 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 that has the longest moratorium period. While the NPA classification has not led to any increase in the interest expenses, it has impacted the company's ability to raise fresh loans for any capex/working capital requirements. For resolving the

NPA issue, the parent (WSH) has infused USD 300 million in SRSL in the form of external commercial borrowings (ECBs) and Rs 185 crore in the form of preference shares, in the current fiscal. These funds are being utilised by the company to prepay the entire NPA classified term loans, working capital limits and to fully redeem the unsustainable debt instruments i.e. Non-Convertible Debentures (NCD), Optionally Convertible Redeemable Preference Shares (OCPS) and Redeemable Preference Shares (RPS) by exercising the voluntary redemption option available as per the terms of the approval resolution plan, at a mutually agreed net present value (NPV) between the lenders and the company. As on October 01,2020, SRSL had already prepaid 90% of the NPA classified term loans, 100% of the working capital facilities and had redeemed 90% of the unsustainable debt instruments ahead of their scheduled maturity. The prepayment / redemption of the remaining 10% of term loans and instruments is in advanced stage of discussion with the lenders. ICRA will closely monitor the developments in this regard and would keep the investors updated in case of resolution of the NPA classification issue

The ratings are further supported by the company's complete forward integration into distillery and co-generation operations, which de-risk the core sugar business and supports its profitability during periods of sugar cyclicality. The company's sugar facilities are based in Maharashtra and Karnataka, which have high sugar recovery rates, longer crushing season and relatively flexible fair & remunerative Price (FRP) based cane price regime. Additionally, its refinery operations which involve significant exports and imports, also benefit from their proximity to ports. ICRA also takes a note of the fact that the company has sold off its entire stake in the Brazilian subsidiaries in FY 2020, and does not have any recourse to their debt liabilities.

The ratings, however, remain constrained by the company's weak financial profile characterised by adverse capital structure and weak debt coverage indicators. The ratings also consider the exposure to 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 the 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, which impact the spread available between raw and white sugar in its sugar refining business.

## Key rating drivers and their description:

## Credit strengths

**Strong and continuing funding support by parent, WIL –** Post the debt restructuring exercise and the subsequent open offer, SRSL has become a subsidiary of Wilmar International Limited (WIL), one of the largest global processor and merchandiser of palm and lauric oils. Wilmar Group's business activities include oil palm cultivation, oilseeds crushing, edible oils refining, sugar, specialty fats, oleochemicals and biodiesel manufacturing and grains processing. SRSL's ratings are supported by corporate guarantees extended by WIL to the secured bank loans and working capital demand loan amounting to Rs. 2904 crore (Now reduced to Rs. 500 crore). While no corporate guarantee support is applicable on the 0.01% NCD, there is a cross-default clause which considers non-payment of principal for NCD as an event of default and could lead to possible acceleration of corporate guarantee extended by WIL for bank loans amounting to Rs. 2504 crore (now reduced to Rs. 100 crore). Additionally, the parent has continued to provide significant working capital support to SRSL in the form of trade advances and trade payables, which stood at Rs 2641.47 crore as on March 31,2020, an increase of Rs 1084.68 crore over the previous fiscal end. Further, in the current fiscal, SRSL has received a large funding support from the parent in the form of USD 300 million of ECBs (payable in August 2025) and Rs 185 crore of preferential shares allotment, which is being utilized to prepay the entire NPA classified term loans and complete redemption of the unsustainable debt (NCD, OCPS, RPS) instruments before their scheduled maturities.

**Sharp external debt reduction exercise undertaken in current fiscal to resolve NPA issue–** SRSL's account continues to be classified as NPA by the lenders as per the directive issued to them by the RBI in March 2019. To resolve the NPA issue, the company has undertaken a sharp debt reduction exercise in the current fiscal using the funds received from the parent in the form of ECB and preferential shares allotment. Subsequently, it has prepaid 90% of the NPA classified term loans that were outstanding as on March 31,2020, and repaid 100% of the working capital facilities availed from the lenders that were part of the debt restructuring process. Additionally, it has exercised the option of voluntary redemption of unsustainable debt instruments (NCD, OCPS and RPS), in line with the terms of the approved resolution plan. Accordingly, these instruments are being fully redeemed before their maturity dates at a mutually agreed net present value (NPV) between the lenders and the company. As on October 01,2020, 90% of NCD, OCPS and RPS had been redeemed by the company. It is in advanced stage of discussion with the lenders for prepayment of the remaining NPA classified term loans and early redemption of the remaining unsustainable debt instruments. ICRA will closely monitor the developments in this regard and would keep the investors updated in case of resolution of the NPA classification issue.

**Fully forward-integrated sugar operations–** SRSL operates 37,500 tonnes crushed per day (TCD) of sugar capacities in Maharashtra and Karnataka. The company' sugar operations are forward integrated into power and alcohol business. It has a total co-generation capacity of 567 MW with a total exportable surplus of 268 MW. SRSL's current operational distillery capacity stands at 720 KLPD from which it mainly manufactures fuel grade ethanol that can be blended with petrol. Additionally, it 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). The integrated operations de-risks the core sugar business of the company, provide alternate revenues, and cushion the profitability against cyclicality in the sugar business.

**Locational advantage for refinery business -** The company's refining units are situated close to ports and thus enjoy locational advantage, as bulk of its raw sugar requirement is met through imports while a significant portion of the refined sugar is sold in foreign markets through exports. As 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 refining business also benefits from the operational synergies with the parent, WIL, which is one of the largest sugar trader in the world.

## Credit challenges

**Weak capitalisation and debt coverage indicators –** SRSL's capital structure is adverse, as reflected by its negative net-worth in the last fiscal ended March 31,2020, because of heavy accumulated losses. The company has continued to report net losses from FY2014 onwards due to weak operating profitability, high interest burden and sizeable forex losses. The extent of loss was particularly high in FY2018 as the company completely wrote-off of its investments and loans to the Brazilian subsidiaries. While the debt of the company has reduced post the restructuring exercise, it continues to remain high as on March 31,2020. Given the weak profitability, high debt levels and high interest charges, the company's debt servicing indicators remained weak in FY2020, as reflected by the interest coverage and DSCR of below 1 time.

**Exposure to agro-climatic risks and cyclical trends in sugar business –** Being an agri-commodity, the sugar cane crop is dependent on weather conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's revenues and profitability. In addition, the cyclicality in sugar production results in significant volatility in sugar prices. During SY 2017 to 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 SY 2019 which resulted in higher cane crushing volumes, the same declined in SY 2020 as lower rainfall in the catchment area over the last two years resulted 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. Thus, the company's operations remain vulnerable to any unfavourable changes in government policies.

**High cane procurement cost –** The FRP for cane procurement declared by the Central Government was raised to Rs. 275 /quintal of cane for SY 2019 including harvesting and transportation costs, linked to 10% recovery rate with a premium of Rs. 2.75/quintal of cane for every 0.1% increase in the recovery rate. The same remained unchanged for SY2020. In relation to the recovery rate reported by the company in FY2020, its average cane procurement cost in Rs/MT terms has remained on a higher side.

**Exposure of trading business to price fluctuation risks -** SRSL is also involved in trading of raw sugar, white sugar and certain distillery products and remains exposed to price fluctuation risks.

## Liquidity position: Adequate

SRSL's liquidity position is adequate and is largely supported by the consistent working capital funding support received from the parent, WSH, in the form of trade advances and extended credit period on purchase of raw sugar for refining operations. As on June 30,2020, the company had liquid cash balances of Rs 122 crore and undrawn fund based working capital limits of Rs 134 crore. In the current fiscal, the company has received additional funding of USD 300 mn from WSH in the form of ECB which is to be repaid at the end of five years (August 2025), and Rs 185 crore of preferential shares allotment to WIL. The company has utilized this funding to repay 90% of its NPA classified external debt (term loans, NCD, RPS, OCPS) and the prepayment of the remaining 10% is also under process. On complete resolution of the NPA classification issue, the company is likely to regain the access to the banking system which would improve its financial flexibility. Further, WIL remains committed to provide timely funding support to SRSL, in case of any liquidity mismatch in future.

## Rating Sensitivities:

**Positive triggers –** Any positive rating action is likely only after the complete resolution of the issue related to NPA classification of the account by the lenders

**Negative triggers –** Negative pressure on the rating could emerge if the credit profile of the parent, WIL, deteriorates or there is a decline in funding support or change in support philosophy by WIL.

## Analytical approach:

| Analytical Approach | Comments |
|---|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>Rating Methodology for Sugar Companies<br>Impact of Parent or Group Support on an Issuer's Credit Rating |
| Parent/Group Support | Parent: Wilmar International Limited<br>The assigned ratings factor in the high likelihood of the parent, extending financial support to SRSL, should there be a need, as evidenced in the past. |
| Consolidation / Standalone | The ratings are based on the limited consolidation of SRSL and its subsidiaries as mentioned in Annexure 2 |

## About the company:

Shree Renuka Sugars Limited (SRSL) is one of the largest private sector sugar manufacturers in the country, with a standalone combined crushing capacity of about 37500 TCD (across six units). The plants in India are in Maharashtra and Karnataka. SRSL is one of the first mills in the country 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. SRSL's distillery capacity stands at 720 KLPD spreads across three locations in Karnataka. The company has a total co-generation capacity of 567 MW, with a total exportable surplus of 268 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 (Standalone)

| | FY2019 (Audited) | FY2020 (Audited) |
|---|---|---|
| Operating Income (Rs. crore) | 4449.65 | 4620.40 |
| PAT (Rs. crore) | -381.89 | -551.20 |
| OPBDIT/OI (%) | 8.51% | 4.91% |
| PAT/OI (%) | -8.58% | -11.93% |
| | | |
| Total Outside Liabilities/Tangible Net Worth (times) | -11.39 | -6.41 |
| Total Debt/OPBDIT (times) | 7.10 | 9.66 |
| Interest Coverage (times) | 0.70 | 0.47 |

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for last three years

| SN | Instrument | Current Rating (FY2021) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs crore)* | 29-Oct-20 | FY2020 | | FY2019 | FY2018 |
| | | | | | | 12-Jul-19 | 2-Apr-19 | 23-Jul-18 | 8-Aug-17 |
| 1 | NCD | Long-Term | 26.50 | 26.50 | [ICRA]BBB+ & | [ICRA]BBB+ & | [ICRA]BBB+ & | [ICRA]BBB+ | [ICRA]D |
| 2 | Term Loan | Long-term | 133.99 | 133.99 | [ICRA]BBB+ & | [ICRA]BBB+ & | [ICRA]BBB+ & | [ICRA]BBB+ | [ICRA]D |
| 3 | Cash Credit | Long-term | - | - | - | [ICRA]BBB+ & | [ICRA]BBB+ & | [ICRA]BBB+ | [ICRA]D |
| 4 | Letter of Credit | Short -term | - | - | - | [ICRA]A2 & | [ICRA]A2 & | [ICRA]A2 | [ICRA]D |
| 5 | Working Capital Demand Loan | Short-term | 400.00 | 400.00 | [ICRA]A2 & | - | - | | |

* As on August 6,2020

& on watch with developing implications

## 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

## Annexure-1: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| INE087H07086 | NCD | FY2018 | 0.01% | FY2027 | 26.50 | [ICRA]BBB+ &, on watch with developing implications |
| - | Term Loans | | 9-10% | FY2029 | 133.99 | [ICRA]BBB+ &, on watch with developing implications |
| - | Working Capital Demand Loan | | - | - | 400.00 | [ICRA]A2&, on watch with developing implications |

Source: Shree Renuka Sugars Limited

## Annexure-2: List of entities considered for consolidated analysis

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

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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