December 27, 2022

Shree Renuka Sugars Limited: Ratings reaffirmed; rated limits reduced for bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Term Loan	8.00	-	-
Short Term – Fund Based – Working Capital Demand Loan	400.00	-	-
Long Term/Short Term – Fund Based – Working Capital Demand Loan	-	400.00	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	**408.00**	**400.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into account Shree Renuka Sugar Limited's (SRSL) strong parentage, as it is a subsidiary of Wilmar International Limited (WIL) (through Wilmar Sugar Holdings, Pte Limited (WSHPL)), one the leading global agro-commodity companies in the world, along with its presence across the entire value chain and an extensive distribution network. The ratings continue to draw comfort from the continued funding support of the parent, WSHPL to SRSL in the form of trade advances and trade payables to meet its working capital requirements, along with providing funding support in case of any liquidity mismatch. The ultimate parent, Wilmar International Limited (WIL), has also provided corporate guarantee on the outstanding long-term borrowings and working capital limits availed by the company from banks and financial institutions.

The ratings are further supported by the company's complete forward integration into distillery, co-generation and refining operations, which provides the necessary cushion to SRSL's profitability against the cyclicality in sugar operations. The company is in the process of increasing the distillery capacity to 1250 KLPD by Q4FY2023 which would strengthen its operational profile and improve the revenue diversification, besides reducing the seasonality in revenues. The company's revenue growth would be driven by firmed up global sugar prices, higher distillery volumes and improved domestic sugar realisations.

Further, higher sucrose diversion towards B-heavy molasses/juice-based ethanol is expected to result in improved blended distillery realisations, coupled with lower sugar inventory and in turn, lower working capital debt levels. The company's sugar facilities are in Maharashtra and Karnataka, having high sugar recovery rates and longer crushing season with adequate availability of cane. Additionally, its refinery operations, which involve significant exports and imports, also benefit from their proximity to ports. ICRA also takes note of the proposed qualified institutional issue (QIP) of upto Rs. 1500 crore approved by SRSL's board, the successful completion of which will help strengthen the company's liquidity and credit metrics.

The ratings, however, remain constrained by the company's weak financial profile, characterised by an adverse capital structure with debt-funded distillery capex raising the debt levels and resulting in modest debt coverage indicators. The ratings also factor in the industry risks such as exposure to the inherent cyclicality in the sugar industry, the agro-climactic risks related to cane production and the Central Government's policies on sugar trade and pricing of cane, sugar and ethanol. 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.

The Stable outlook reflects ICRA's expectation that the company would continue to benefit from its strong operational and financial linkage with the Wilmar Group along with a healthy operational profile of the company on a standalone level.

Key rating drivers and their description

Credit strengths

Strong parentage and demonstrated track record of support – SRSL is a subsidiary of Wilmar Sugar Holdings Pte Limited (WSHPL), which in turn is a wholly-owned subsidiary of the Wilmar Group's holding company, WIL. The Wilmar Group is present across the entire value chain of the agricultural commodity business, from the cultivation and milling of palm oil and sugarcane, to the processing, branding and distribution of a wide range of edible food products. The holding company, WIL, is Asia's leading agro-business company with over 500 manufacturing plants and an extensive distribution network covering China, India, Indonesia and 50 other countries. It is one of the largest listed companies by market capitalisation on the Singapore Stock Exchange. WIL's large scale of operations and its globally established presence in the agro-commodity business provide it a strong financial flexibility. It is further strengthened by its key shareholders - the Kuok Group, a large corporate group of Asia, and Archer Daniels Midland (rated Moody's A2/Stable), one of the largest agro-commodity companies in the world.

SRSL also receives working capital support from WSH as and when required in the form of trade advances and trade payables, which stood at Rs. 980.9 crore as on June 30, 2022. Additionally, the ultimate parent, WIL, has also provided corporate guarantee on the working capital limits of Rs. 400 crore and term loan facilities availed by the company from banks and financial institutions.

Fully forward-integrated sugar operations; ongoing expansion of distillery capacity – SRSL's operations are fully integrated and comprise 567 MW of cogeneration capacity and distillery capacity of 720 KLPD. SRSL is in the process of doubling its distillery capacity to 1,400 KLPD from 720 KLP by FY2024, of which 1,250 KLPD will be available by Q4FY2023. The company plans to fund the capital cost of Rs 700 crore through term loans of Rs. 590 crore and the remaining through equity infusion. 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 a 3,000-TPD unit at Kandla (Gujarat). The integrated operations provide alternative revenue streams and act as a cushion against the cyclicality in the sugar business. The refinery segment accounted for ~49% of the total revenue in FY2022, followed by the distillery segment at 12% and the co-generation business at 6%. The contribution from the distillery segment is expected to increase, going forward, with the ongoing capacity expansion.

Profitability may improve due to steady sugar realisations and higher volumes from distillery segment – SRSL's overall operating profitability and cash accruals are expected to benefit from firmed up sugar realisations, both internationally and domestically, along with better distillery performance. Going forward, the company is anticipated to divert a higher proportion of cane to produce ethanol through B-heavy molasses and/or sugarcane juice, after the expanded capacity becomes operational. SRSL's operating margins will be supported by the likely continuation of MSP, remunerative prices of ethanol and the industry's focus on diverting excess cane towards ethanol production, resulting in improved domestic demand-supply balance. Further, the increase in sugar sacrifice towards ethanol will support the working capital requirements of the company.

Locational advantage of refinery business – The company's refining units are situated close to the ports and have locational advantage as bulk of its raw sugar requirement is met through imports, while a significant portion of the refined sugar is sold in the foreign markets through exports. As the company procures raw sugar from the 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 traders in the world.

Credit challenges

Moderation in coverage indicators with increased borrowings - SRSL's debt levels have increased and the debt protection metrics witnessed some moderation in FY2022 and H1 FY2023. The company's debt levels rose to Rs. 4,246.7 crore as on September 30, 2022 from Rs. 3,785.9 crore in FY2021, mainly to fund the distillery capex requirements in addition to the increased working capital requirements. Higher debt levels along with negative net worth in FY2022 have moderated the debt metrics with an interest cover of 0.7 times (PY: 1.2 times) and debt/OPBIDTA of 11.98 times (PY: 9.11 times) as on September 30, 2022. Though the debt levels have increased, the capitalisation and coverage indicators are expected to improve from FY2023 onwards with the likely expansion of OPBIDTA, mainly contributed by the distillery and refining segments. The company is also contemplating raising equity funds to reduce borrowings and fund its growth plans.

Sugar mills remain vulnerable to industry's cyclicality and agro-climatic risks – Being an agri-commodity, sugarcane depends on weather conditions and is vulnerable to pests and diseases that may affect the yield per hectare and recovery rate. These factors can have a significant impact on the company's profitability. Additionally, the cyclicality in sugar production results in a significant volatility in prices. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice is likely to curtail the excess supply of sugar. This would lower the volatility in sugar prices and in turn, ensure stable cash flows from the sugar business.

Exposure to forex fluctuation risk and government/regulatory policies – The company's refining operations involve the import of raw sugar and export of white refined sugar. While raw sugar is largely purchased from the Wilmar Group against extended credit periods, refined sugar is sold at much lower credit periods. This timing difference negates the natural hedge to an extent and exposes the company to forex fluctuation risk. The company reported a forex loss of Rs. 31.44 crore in FY2022 against a gain of Rs. 74.75 crore in FY2021. Further, 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.

Environmental and Social Risks

Environmental Risk – Sugar entities like SRSL 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 Maharashtra and Karnataka, having high sugar recovery rates and 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 in certain parts that have high rainfall dependence, as was seen in FY2020 when drought had impacted SRSL's sugarcane acreage.

Social Risks - 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 drivers of change are expected to be relatively slow paced. Therefore, while SRSL 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

The company's liquidity position is adequate and largely supported by consistent funding support from the parent, WSH, in the form of trade advances, external commercial borrowings and extended credit period on the purchase of raw sugar for refining operations. The debt-funded distillery capex is likely to keep the debt servicing requirements high in the near to medium term. While the cash flows at a standalone level may remain subdued, ICRA expects timely infusion of funding support from the Wilmar Group in case of any liquidity mismatch, given the track record of support in the past.

Rating sensitivities

Positive factors – A sustained improvement in the credit profile of the parent, WIL, could lead to an upgrade. Further, a sustained improvement in the revenue and profitability of SRSL along with a sizeable reduction in debt would improve the debt coverage metrics and could trigger an upgrade.

Negative factors – Pressure on the ratings could emerge if the credit profile of the parent, WIL, deteriorates, or there is a lack of timely funding support, or change in support philosophy by WIL. Further, SRSL's inability to improve its financial performance, with interest coverage on external debt of less than 2 times on a sustained basis, would be the other key negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach – Implicit Support from Parent or Group Rating Methodology for Sugar Companies
Parent/Group support	Parent: Wilmar International Limited 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 37,500 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 and will be increased to 1,250 KLPD by Q4FY2023, spread across three locations in Karnataka. The company has a total cogeneration capacity of 262 MW, with a total exportable surplus of 248 million KWh. 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)

	FY2021	FY2022	H1FY2023
Operating income	5577.60	6173.13	4049.20
PAT	55.64	113.06	-207.50
OPBDIT/OI	10.40%	7.35%	4.38%
PAT/OI	1.00%	1.83%	-5.12%
Total outside liabilities/Tangible net worth (times)	-10.52	-12.57	-8.56
Total debt/OPBDIT (times)	6.53	9.11	11.98
Interest coverage (times)	1.57	1.21	0.74

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
					Dec 27, 2022	Oct 29, 2021	Oct 29, 2020	Jul 12, 2019	Apr 02, 2019
1	**Working capital Demand Loan**	Long Term/Short term	400.00	-	**[ICRA]A- (Stable)/[ICRA]A2+**	-	-	-	-
2	**Working capital Demand Loan**	Short term	-	-	-	**[ICRA]A2+**	**[ICRA]A2 &**	-	-
3	**NCD**	Long term	-	-	-	**[ICRA]A- (Stable); Withdrawn**	**[ICRA]BBB+ &**	**[ICRA]BBB+ &**	**[ICRA]BBB+ &**
4	**Term Loan**	Long term	-	-	-	**[ICRA]A- (Stable)**	**[ICRA]BBB+ &**	**[ICRA]BBB+ &**	**[ICRA]BBB+ &**
5	**Cash credit**	Long term	-	-	-	-	-	**[ICRA]BBB+ &**	**[ICRA]BBB+ &**
6	**Letter of Credit**	Short term	-	-	-	-	**[ICRA]A2 &**	**[ICRA]A2 &**	**[ICRA]A2 &**

& on watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term – Fund Based – Working Capital Demand Loan	Very Simple

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/Short Term – Fund Based – Working Capital Demand Loan	-	-	-	400.00	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidated Approach
Gokak Sugars Limited	93.64%	Limited Consolidated
KBK Chem-Engineering Private Limited, India	100%	Limited Consolidated
Renuka Commodities DMCC, United Arab Emirates	100%	Limited Consolidated
Shree Renuka Agri Ventures Limited, India	100%	Limited Consolidated
Monica Trading Private Limited, India	100%	Limited Consolidated
Shree Renuka Tunaport Private Limited, India	100%	Limited Consolidated
Shree Renuka East Africa Agri ventures PLC, Ethiopia*	99.99%	Limited Consolidated

**Liquidation filed with concerned authorities*

Source: Company

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Anupama Arora
+91 124 4545 303
anupama@icraindia.com

Menka Sabnani
+91 79 4027 1562
menka.sabnani@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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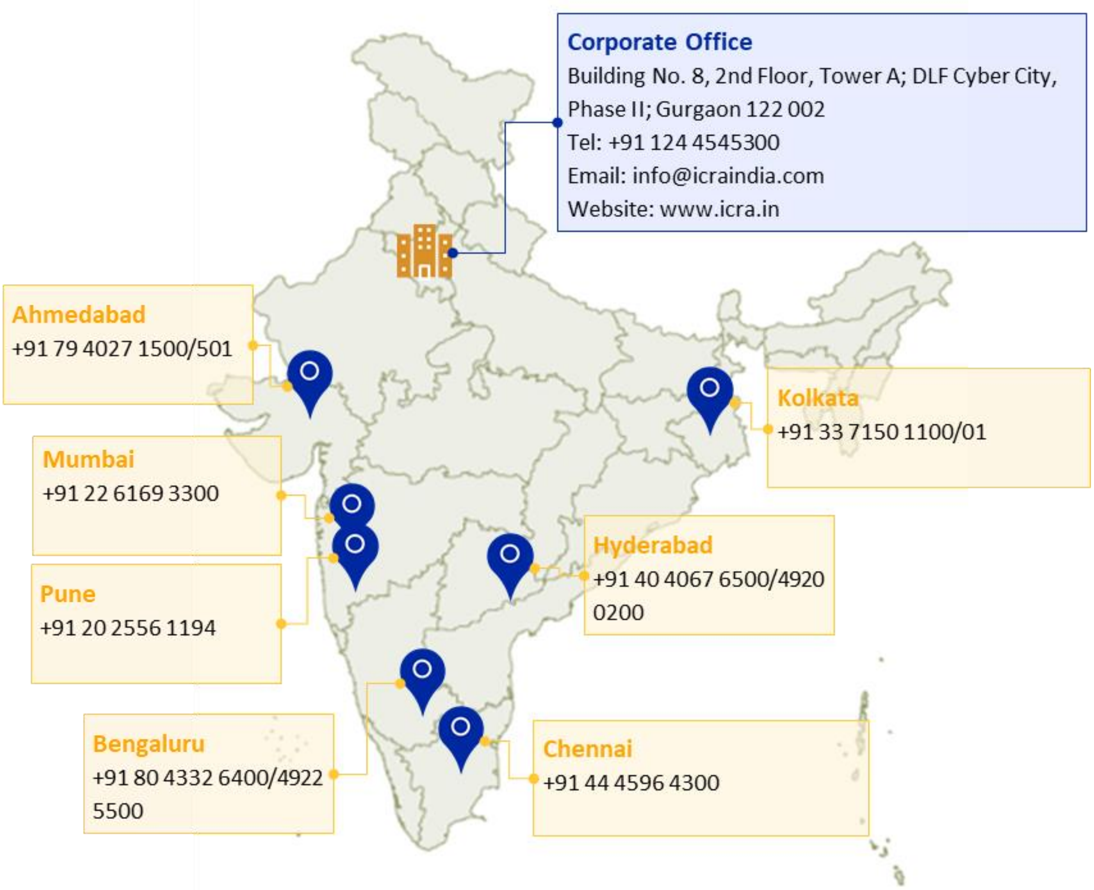

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