Dwarikesh Sugar Industries Limited

April 02, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	27.78	251.36	[ICRA]A+ (Stable); Reaffirmed
Cash Credit	565.00	556.00	[ICRA]A+ (Stable); Reaffirmed
Non-Fund Based Limits	5.00	14.00	[ICRA]A+ (Stable); Reaffirmed
Unallocated Limits	52.21	3.63	[ICRA]A+ (Stable); Reaffirmed
Total	**649.99**	**824.99**	
Commercial Paper#	300.00	300.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1
#carved out of working capital limits

Rationale

The rating reaffirmation factors in DSIL's healthy operating performance, supported by the healthy cane crushing volume (despite a decline by 14.7% year-on-year (YoY)) and the increase in recovery rate in SY2019. DSIL's operating profitability in FY2019 is likely to be supported by the lower cane cost of production, improved performance in the distillery division (backed by higher sales volumes and realisations YoY) and the inventory gains on closing sugar stocks of the previous year. The continued Government support to the sugar industry in the form of 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 in addition to the cash subsidy and low-cost soft loans by the state government are likely to support the liquidity, profitability and cash accruals in FY2019. Despite the debt-funded expansion of the distillery unit and the recent soft loans, the cash flows remain comfortable compared to the debt obligations. Further, DSIL's forward integration into cogeneration and distillery businesses shields its operations against cyclicality in the sugar business. DSIL's liquidity profile remains comfortable, with sufficient cushion in its working capital limits.

DSIL's ratings are 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 the counterparty credit risk associated with the sale of power to the utilities in Uttar Pradesh (UP). ICRA also notes that the profitability of the UP-based sugar mills will continue to remain vulnerable to the Government of UP's (GoUP) policy on cane prices.

Outlook: Stable

ICRA expects sugar prices to be supported by the recent government initiatives. The outlook may be revised to Positive if the sugar production estimates for SY2020 are lowered and the exports under Minimum Indicative Export Quota (MIEQ) are implemented successfully, resulting in favourable supply-demand dynamics and consequently, higher sugar prices. The outlook may be revised to Negative if the sugar production estimate is considerably higher than the consumption estimate for SY2020, resulting in pressure on prices and sugar off-take.

Key rating drivers

Credit strengths

Significant size of forward-integrated and operationally-efficient sugar operations - DSIL operates 21,500 tonne crushed per day (TCD) of sugar capacities in UP. The plant's operation is forward integrated into power and alcohol business—co-generation capacity of 86 mega-watt (MW) and distillery capacity of 30 kilo litre per day (KLPD). The integrated operation provides alternate revenues and cushions profitability against cyclicality in sugar business.

Healthy cane crushing and recovery rates – DSIL's cane crushing is likely to remain healthy, around 31 lakh MT, despite a decline by 14.7% from an all-time high of 36.1 lakh MT cane crushing in SY2018. This crushing level will support the forward-integrated operations. Further, DSIL's healthy recovery rate, 12.20% in SY2019, an increase from 11.88% in SY2018, would support its cost structure.

Comfortable capital structure and debt coverage metrics – The company's capital structure was comfortable at 0.77 times as on December 31, 2018. Almost 54% of the debt comprised of working capital loans, implying a long-term debt-to-equity ratio of 0.35 times. The company's long-term debt increased to Rs. 151.2 crore as on December 31, 2018 from Rs. 70.0 crore as on March 31, 2018 due to debt funded expansion of distillery unit and low-cost soft loans (approved by UP government). Despite these and the consequent increase in the debt obligations going forward, the interest coverage and debt service coverage ratio are likely to remain comfortable.

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). DSIL's eligibility is around Rs. 140.9 crore for the soft loans and around Rs. 73.0 crore for the loans under ethanol capacity expansion. Earlier, the UP government approved cash subsidy of Rs. 4.50/quintal (of cane crushed in SY2018) along with low-cost soft loans, which translated to Rs. 16 crore and Rs. 134.4 crore, respectively. These measures are likely to support DSIL's liquidity in FY2019.

Credit challenges

Geographical concentration risk - DSIL has three sugar plants, viz. Dwarikesh Nagar, Dwarikesh Puram and Dwarikesh Dham in UP. Dwarikesh Nagar and Dwarikesh Puram are located in the Bijnor district, while Dwarikesh Dham is located in the Bareilly district. Hence, DSIL's operations remain exposed to geographic concentration risk.

Vulnerability of profitability to state government's policy on cane prices - The cane price and subsidies (if any) are determined by the GoUP at the start of the crushing season. Thus, the performance of the company can be impacted by a disproportionate increase in cane price in any particular year.

Susceptibility of profitability to agro-climatic risk and regulatory risk - The profitability of sugar mills remains exposed to the cyclicality of the sugar industry, the agro-climatic risks related to cane production, the government policies related to sugar trade and the counterparty credit risk associated with the sale of power to the utility.

Liquidity Position:

DSIL's liquidity position is comfortable with the average working capital utilization moderate at 52% during the period March 2018 to February 2019. DSIL has an average cushion of Rs. 171 crore during this period. In addition, the soft loans of Rs. 134 crore is likely to provide liquidity support in the near term.

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	Standalone

About the company:

DSIL, promoted by Mr. Gautam R. Moraraka, was incorporated in 1994. The company set up a 2,500 TCD sugar plant in the sugar-rich belt of UP at the Bundki village in the Bijnor district. DSIL has been increasing its crushing capacity regularly; currently, it is 21,500 TCD. It has three sugar plants, Dwarikesh Nagar, Dwarikesh Puram and Dwarikesh Dham. Besides, DSIL has cogeneration facilities of 17 MW at Dwarikesh Nagar, 33 MW at Dwarikesh Puram and 36 MW at Dwarikesh Dham unit. Of these, DSIL sells 8 MW from Dwarikesh Nagar, 24 MW from Dwarikesh Puram and 24 MW from Dwarikesh Dham unit to the state grid. The company has a distillery of 30,000 litres per day at its Dwarikesh Nagar unit, which is capable of manufacturing industrial alcohol and ethanol. This capacity is being expanded to 130,000 litres per day at an expected cost of Rs. 146 crore, which is funded by Rs. 116.9 crore of debt and remaining by internal accruals. The capacity is likely to be operational in SY2020.

In 9MFY2019, on a provisional basis, the company reported a net profit of Rs. 62.80 crore on an operating income of Rs. 906.10 crore, as compared to a net profit of Rs. 167.60 crore on an operating income of Rs. 1093.30 crore in the previous year. In FY2018, the company reported a net profit of Rs. 101.45 crore on an operating income of Rs. 1429.95 crore, as compared to a net profit of Rs. 156.10 crore on an operating income of Rs. 1190.40 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1190.40	1429.95
PAT (Rs. crore)	156.10	101.45
OPBDIT/OI (%)	22.96%	9.96%
RoCE (%)	32.86%	16.71%
Total Debt/TNW (times)	1.86	0.94
Total Debt/OPBDIT (times)	1.95	2.40
Interest coverage (times)	5.21	5.63

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the past 3 years										
						Date & Rating in FY2019			Date & Rating in FY2018					Date & Rating in FY2017		
	Instrument	Type	Amount Rated (Rs. crore)	Outstanding amount (Rs. crore)	April 2019	October 2018	June 2018	May 2018	March 2018	January 2018	September 2017	August 2017	July 2017	March 2017	December 2016	July 2016
1	Term Loan	Long Term	251.36	251.36	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA[BBB+ (Positive)**
2	Cash Credit	Long Term	556.00		**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA[BBB+ (Positive)**
3	Non-fund Based	Long Term	14.00		**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA[BBB+ (Positive)**
4	Unallocated	Long Term	3.36		**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Negative)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA[BBB+ (Positive)**
5	Commercial Paper#	Short Term	300.00		**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	-	-	-	-

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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
NA	Term Loan 1	November 2018	5%	June 2024	134.48	[ICRA]A+ (Stable)
	Term Loan 2	January 2019	8.95%	December 2025	116.88	[ICRA]A+ (Stable)
NA	Cash Credit	-	8.75%	-	556.00	[ICRA]A+ (Stable)
NA	Non-fund Based Limits	-	NA	-	14.00	[ICRA]A+ (Stable)
NA	Unallocated	-	NA	-	3.63	[ICRA]A+ (Stable)
NA	Commercial Paper#	-	-	-	300.00	[ICRA]A1+

#carved out of working capital limits, Source: Dwarikesh Sugar Industries 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.

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