Dwarikesh Sugar Industries Limited

June 28, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	54.05	54.05	[ICRA]A+; reaffirmed; outlook revised to stable from negative
Cash Credit	565.00	565.00	[ICRA]A+; reaffirmed; outlook revised to stable from negative
Non-Fund Based Limits	5.00	5.00	[ICRA]A+; reaffirmed; outlook revised to stable from negative
Unallocated Limits	25.94	25.94	[ICRA]A+; reaffirmed; outlook revised to stable from negative
Total	**649.99**	**649.99**	
Commercial Paper#	300.00	300.00	[ICRA]A1+; reaffirmed

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

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]A+ (pronounced ICRA A plus) for the Rs. 54.05-crore term loans[1], the Rs. 565.00-crore cash credit facilities, the Rs. 5.00-crore non-fund based facilities and the Rs. 25.94-crore unallocated limits of Dwarikesh Sugar Industries Limited (DSIL or the company)[2]. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for the Rs. 300.00-crore commercial paper of DISL. The outlook on the long-term rating is revised to Stable from Negative.

Rationale

The outlook revision factors in the recent support measures taken by the Government of India (GoI) for the sugar industry such as creation of three million metric tonnes (MT) of buffer stock, which is likely to improve the demand-supply scenario in the near term, and fixing of minimum sugar price (MSP) at Rs. 29,000/MT. These measures have helped in sugar prices recovery, which is likely to result in significant inventory gains in Q1 FY2019, given that the closing inventory was valued around Rs. 26,000/MT as on March 31, 2018. This along with the carrying cost benefit on buffer stock is likely to result in a higher-than-expected operating profitability and cash accruals, as against ICRA's expectations that changed the outlook to Negative from Stable in May 2018. Given that DSIL repaid a significant portion of the long-term debt in FY2017 and FY2018, the cash flows remain comfortable relative to the debt servicing. Further, healthy cane crushing levels and DSIL's forward integration into cogeneration and distillery businesses continue to provide cushion 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

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

power and ethanol; and counterparty credit risk associated with the sale of power to the utilities in Uttar Pradesh (UP). ICRA also notes that 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 recover and remain stable in the near term supported by the recent government initiatives. The outlook may be revised to Positive if the sugar production estimates for SY2019 are lowered and if the exports of 2 million MT are implemented successfully, resulting in favourable supply-demand dynamics, which in turn would result in higher sugar prices. The outlook may be revised to Negative if there is a considerably higher sugar production than consumption estimates for SY2019, resulting in a crash in sugar prices.

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, which are forward integrated into power and alcohol business—the co-generation capacity is 86 mega-watt (MW) and the distillery capacity is 30 kilo litre per day (KLPD). This provides alternate revenues and cushions profitability against cyclicality in sugar business.

Healthy cane crushing and recovery rates - The company is likely to report an all-time high of 36.1 lakh MT cane crushing in SY2018 from 28.3 lakh MT in SY2017. The healthy crushing level will support the forward-integrated operations in FY2019. Further, DSIL's healthy recovery rate (11.88% in SY2018 versus 11.78% in SY2017) would support its cost of production.

Comfortable capital structure and debt coverage metrics – The company's capital structure was comfortable at 0.94 times as on March 31, 2018. Almost 80% of the debt was on account of working capital loans, implying a long-term debt-to-equity of 0.19 times. The company had used its cash flows in FY2017 and FY2018 to prepay a significant portion of its long-term liabilities, thereby lowering the outstanding long-term debt as on March 31, 2018 to Rs. 79.0 crore from Rs. 176.6 crore as on March 31, 2017. Given the lower interest burden and the limited long-term debt repayments going forward, the interest coverage and debt service coverage ratio are likely to remain comfortable.

Recovery in sugar price following GoI's support measures – GoI has recently announced support measures for the sugar industry which include creation of 3 million MT of buffer stock, fixation of MSP at Rs. 29,000/MT and incentives for setting up of distillery capacities. The creation of buffer stock is likely to improve the demand-supply dynamics in the near term. The prices have already witnessed recovery to Rs. 33,000/MT from the low level of Rs. 27,500/MT in May 2018. This improvement in the prices is likely to result in inventory gains in Q1 FY2019, given the low inventory valuation of around Rs. 26,000/MT as on March 31, 2018. This along with the carrying cost benefit on buffer stock is likely to result in higher-than-expected operating profitability and cash accruals against ICRA's expectations.

Credit challenges

Geographical-concentration risk as all three units are located in UP - DSIL has three sugar plants, viz. Dwarikesh Nagar (DN), Dwarikesh Puram (DP) and Dwarikesh Dham (DD) in UP. DN and DP are located in the Bijnor district, while DD is located in the Bareilly district. As a result, DSIL's operations remain exposed to geographic concentration risk.

Profitability remains vulnerable 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.

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

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

Rating Methodology for Entities in the Sugar Industry

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 raising its crushing capacity regularly and the same has since been increased to 21,500 TCD. It has three sugar plants (DN, DP and DD) at present. Besides, DSIL has cogeneration facilities of 17 MW at DN, 33 MW at DP and 36 MW at DD unit. Of these, DSIL sells 8 MW from DN, 24 MW from DP and 24 MW from DD unit to the state grid. The company has a distillery of 30,000 litres per day at its DN unit, which is capable of manufacturing industrial alcohol and ethanol.

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: Non

Rating history for last three years:

	Instrument	Type	Amount Rated (Rs. crore)	Outstanding amount (Rs. crore)	Current Rating (FY2019)		Chronology of Rating History for the past 3 years									
							Date & Rating in FY2018					Date & Rating in FY2017			Date & Rating in FY2016	
					June 2018	May 2018	March 2018	January 2018	September 2017	August 2017	July 2017	March 2017	December 2016	July 2016	March 2016	July 2015
1	Term Loan	Long Term	54.05	50.65	[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)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)
2	Cash Credit	Long Term	565.00		[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)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)
3	Non-fund Based	Long Term	5.00		[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)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)
4	Unallocated	Long Term	25.94		[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)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)
5	Commercial Paper#	Short Term	300.00		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	-	-	-	-	-

#carved out of working capital limits

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	October 2014	8.95%	September 2019	10.83	[ICRA]A+ (Stable)
	Term Loan 2	August 2015	8.95%	June 2022	26.25	[ICRA]A+ (Stable)
	Term Loan 3	February 2014	-	January 2019	16.97	[ICRA]A+ (Stable)
NA	Cash Credit	-	8.75%	-	565.00	[ICRA]A+ (Stable)
NA	Non-fund Based Limits	-	NA	-	5.00	[ICRA]A+ (Stable)
NA	Unallocated	-	NA	-	25.94	[ICRA]A+ (Stable)
NA	Commercial Paper#	-	7.50%-7.75%	-	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.

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.

For more information, visit www.icra.in

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