Dwarikesh Sugar Industries Limited

October 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	54.05	27.78	[ICRA]A+ (Stable); Reaffirmed
Cash Credit	565.00	565.00	[ICRA]A+ (Stable); Reaffirmed
Non-Fund Based Limits	5.00	5.00	[ICRA]A+ (Stable); Reaffirmed
Unallocated Limits	25.94	52.21	[ICRA]A+ (Stable); Reaffirmed
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. 27.78-crore (declined from 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. 52.21-crore (increased from 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 Stable.

Rationale

The rating reaffirmation factors in the continued support from the Government for the sugar industry; production subsidy is increased to Rs. 13.88/quintal for SY2019 (from Rs. 5.5/quintal for SY2018) against sugar exports by the central government. And recently Uttar Pradesh (UP) state government approved cash subsidy and low-cost soft loans, which translate to Rs. 16 crore and Rs. 125 crore respectively, for DSIL. While the GoI's measures are likely to expedite exports and support sugar prices in the near term, the latter would result in liquidity support in FY2019. These measures are likely to support the profitability and cash accruals in FY2019. Earlier in June 2018, the GOI approved the cash subsidy for three million metric tonnes (MT) of buffer stock and fixed the minimum sugar price (MSP) at Rs. 29,000/MT, which have helped in sugar prices recovery. Given that DSIL repaid a significant portion of the long-term debt in FY2017 and FY2018, the cash flows remain comfortable compared to the debt servicing. This is despite the moderate debt-funded capex (Rs. 100 crore capex) to expand the distillery capacity in FY2019. Further, healthy cane crushing levels and DSIL's forward integration into cogeneration and distillery businesses provide cushion against cyclicality in the sugar business. DSIL's liquidity profile remains comfortable, with sufficient cushion in its working capital limits.

[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*

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 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 be supported by the recent government initiatives. The outlook may be revised to Positive if the sugar production estimates for SY2019 are lowered and the recently announced 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 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. 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 operations provide alternate revenues and cushion profitability against cyclicality in sugar business.

Healthy cane crushing and recovery rates - The company reported an all-time high of 36.1 lakh MT cane crushing in SY2018 versus 28.3 lakh MT in SY2017. The healthy crushing level will support the forward-integrated operations. 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 comprised working capital loans, implying a long-term debt-to-equity ratio 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. DSIL has a moderate debt-funded capex plan (approx. Rs. 100 crore) to expand the distillery capacity in FY2019. Despite the capex, 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 a production subsidy of Rs. 13.88/quintal for SY2019 (from Rs. 5.5/quintal for SY2018). This is for sugar exports under MIEQ of 5 million MT for SY2019, which is likely to expedite exports and support sugar prices in the near term. Further, the UP state government approved cash subsidy of Rs. 4.50/quintal (of cane crushed in SY2018) and low-cost soft loans, which translate to Rs. 16 crore and Rs. 125 crore, respectively, are likely to support DSIL's liquidity in FY2019.

Earlier, in June 2018, GoI announced support measures for the sugar industry, which included creation of 3 million MT of buffer stock, fixation of MSP at Rs. 29,000/MT and incentives for setting up of distillery capacities. This helped in recovery of sugar prices from lows of Rs. 26,500/MT in May 2018. In addition, the carrying cost benefit on buffer stock in FY2019 is likely to support the profitability.

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.

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 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.

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; currently, it is 21,500 TCD. It has three sugar plants, Dwarikesh Nagar, Dwarikesh Puram and Dwarikesh Dham at present. 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.

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 (FY2019)			Chronology of Rating History for the past 3 years									
								Date & Rating in FY2018				Date & Rating in FY2017			Date & Rating in FY2016		
	Instrument	Type	Amount Rated (Rs. crore)	Outstanding amount (Rs. crore)	October 2018	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	27.78	27.78	[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)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)
2	Cash Credit	Long Term	565.00		[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)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)
3	Non-fund Based	Long Term	5.00		[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)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)
4	Unallocated	Long Term	52.21		[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)	[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+	[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	August 2015	8.95%	June 2022	21.00	[ICRA]A+ (Stable)
	Term Loan 2	February 2014	-	January 2019	6.78	[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	-	52.21	[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:

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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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