Press Release

Indian Sucrose Limited

June 10, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long term Bank Facilities	150.00	IVR BBB-/ Stable Outlook (IVR Triple B minus with Stable outlook)	IVR BB+/Positive Outlook (IVR double B plus with Positive Outlook)	Simple
Long Term/ Short Term Bank Facilities	20.00 (Reduced from Rs. 25 crore)	IVR BBB-/ Stable/ IVR A3 (IVR Triple B minus with Stable outlook/ IVR A three)	IVR BB+/IVR A4+ (IVR Double B plus with Positive outlook/ IVR A Four plus)	Simple
Total	**170.00 (INR One hundred and seventy crore only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Indian Sucrose Limited (ISL) factors in improvement in its financial performance in FY22 marked by rise in profitability leading to improvement in gross cash accruals and its comfortable capital structure with satisfactory debt protection metrics. Further, the ratings continue to consider its long track record of operation under experienced promoters, locational benefit due to proximity of catchment area and integration initiatives through power cogeneration to provide necessary cushion against cyclical sugar business. The ratings also note constructive development in the sugar industry and fiscal support from the government for sugar realisations and ethanol blending that is expected to impact overall performance of the company. However, these rating strengths continues to remain constrained due to high working capital intensity of the business owing to the inherent nature of sugar industry, vulnerability of profitability to volatility in sugar realisations & cane procurement costs, exposure to risk related to government regulations and exposure to agro-climatic risks and cyclical trends in sugar business.

Key Rating Sensitivities:

Upward Factors

- Sustained growth in scale of operations with improvement in profitability whereas EBITDA margin to be maintained at above 13%.
- Improvement in the capital structure with improvement in the debt protection metrics
- Improvement in liquidity marked by improvement in the operating cycle

Downward Factors

- Moderation in the scale of operation and/or moderation in profitability with EBITDA margin deteriorated below 10% on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing to over 2x
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters in the sugar industry, long track of operations**

The promoters of ISL have around two-decade-long experience in the sugar industry. Long standing presence in the industry has helped them to build established relationships with both customers and suppliers.

- **Location benefits on account of proximity of the catchment area**

The company procures the required cane from around Mukerian, Hoshiarpur, Punjab. The catchment area remains contiguous with the sub-Himalayan terrain of Himachal Pradesh wherein the mountain streams deposit alluvial soil and the Pong dam (Beas River) command area ensuring adequate ground water table levels favoring the cane production. Strategic location has reflected in adequate sugar recovery rate at ~10.45% in FY2022.

- **Integration initiatives through power cogeneration provides necessary cushion against cyclical sugar business**

The company's sugar operations are forward integrated into power cogeneration operations. While the by-products provide an alternative source of revenue, they also cushion the company's profitability against the inherent cyclicality in the sugar business.

- **Improvement in profitability metrics**

The profitability metrics of ISL has improved in FY22 driven mainly due to the increase in the realisation value of sugar post Covid 19 pandemic, with the change in government regulations. The company sugar realizations in FY2022 remained above statutory realization prescribed by Government of India at Rs.31,000/MT, leading to higher absorption of fixed overheads along with increase in contribution from high margin power revenue. There is also overall improvement in the profitability metrics of ISL.

- **Improvement in the capital structure coupled with improvement in debt protection metrics**

The capital structure of the company is expected to improve in FY22 driven by scheduled repayment of debts and accretion of profit to reserves. The overall gearing ratio was at 1.84x as on March 31, 2021, and the same is to be improved to below 1.20x as on March 31,2022 backed by reduction in term loan and accretion of profit to net worth. Moreover, the debt protection metrics of the company which remained comfortable in the past is expected to improve further in FY22 driven by rise in profit levels and reduction in interest outgo.

- **Fiscal support from the government in the form of soft loans, threshold sugar realisations and cane procurement cost amongst others**

ISL also benefits from the various fiscal incentives extended by the Government to the domestic sugar industry which include subsidy for sugar exported, capital subsidy, soft loans interest subvention scheme. The export subsidy benefit has materially impacted the margins of the sugar entities in the past fiscals. The Government of India also fixes the threshold cane procurement price annually, while periodically revising the minimum sugar realisations. The Government has also promoted the manufacturing of ethanol from B-molasses against C-molasses mainly by offering it a relatively higher realisation. Measures like the aforesaid collaboratively aid improvement the financials of the sugar companies. Infomerics will continuously follow the developments in the sugar industry and evaluate their impact on sugar companies.

Key Rating Weaknesses

- **High working capital intensity on year end sugar holdings**

The company's operations remain working capital intensive inherent to the sugar industry depicted by its elongated operating cycle over the years propelled by year-end inventory build-up. The inventory consists largely of sugar stocks which are liquidated especially in the first half of a given fiscal.

- **Exposure to agro-climatic risks and cyclical trends in sugar business**

Cane production remains a function of agro-climatic conditions, which ultimately impacts the volumes and realisations of sugar and its by-products. Lower than expected rainfall in the firm's catchment area can result in restricted cane availability, thus impacting the crushing volumes for the season. Further, the sugar business remains vulnerable to any unfavourable changes in Government policies related to sugar trade.

- **Vulnerability of profitability to volatility in sugar realisations and cane procurement costs and exposure to risk related to government regulations**

Typically, the profitability of sugar entities remains driven by sugar realisations and cane procurement costs. Whereas sugar realisations remain mainly market driven, the state governments fix the minimum support price for cane. Any adverse movements in the same impact the contribution margins and, hence, profitability of the sugar mills. Further, Government intervention also exists to control the sugar prices to curb food inflation and stabilize the sugar prices in the domestic market.

Analytical Approach: Standalone

Applicable Criteria):

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The liquidity profile of the company is expected to remain adequate especially with gross cash accruals expected to be in range of Rs.46.00 crore to Rs.48.00 crore as against the expected debt repayments of Rs.9.06 crore to Rs.11.06 crore during FY2023 to FY2025. The average working capital utilisation of the fund based sanctioned limits for the 12-month from April 2021 to March 2022 remained at ~61.5% providing adequate liquidity comfort. However, liquidation of the sugar stock at remunerative realisations also remains crucial to the liquidity of the company.

About the Company

Indian Sucrose Limited (ISL) was originally promoted by Oswal Group as Oswal Sugars Limited in 1989 and the unit was set up in 1990-91 at G. T. Road, Mukerian, District Hoshiarpur, Punjab and is engaged in the manufacturing of White Crystal Sugar and also has a 12 MW power cogeneration plant.

In 2000, Yadu Corporation took over the control of the company at that time it was a loss-making unit. It was a small company then with 2500 TCD, the unit was taken over for revival. The management gradually increased the capacity gradually from 2500 TCD to 5000 TCD and to 9000 TCD. The unit gradually moved from loss making to profit making.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2020	31.03.2021
	Audited	Audited
Total Income	533.66	434.21
EBIDTA	50.52	52.62
PAT	12.28	22.37
Total Debt	160.98	204.15
Tangible Net Worth	89.07	110.82
EBDITA Margin (%)	9.50	12.22
PAT Margin (%)	2.30	5.15
Interest Coverage	2.03	2.90
Overall Gearing Ratio (x)	1.81	1.84

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Care EDGE Ratings Limited has moved the rating to Issuer Not Co-Operating category vide its press release dated March 7, 2022, as the company has not provided the requisite information for monitoring the ratings, despite repeated requests.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facili	Current Ratings (Year 2022-23)	Rating History for the past 3 years

	ties	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (December 02, 2021)	Date(s) & Rating(s) assigned in 2020-21 (October 06, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Cash Credit	Long Term	150	IVR BBB-/ Stable Outlook	IVR BB+/ Positive Outlook	IVR BB+/Stable Outlook	
2.	Fund Based/Non Fund Based	Long Term/ Short Term	20	IVR BBB-/ Stable/ IVR A3	IVR BB+/ Positive/ IVR A4+	IVR BB+/ Stable/ IVR A4+	

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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	150	IVR BBB-/ Stable
Fund Based/Non Fund Based	-	-	-	20 (reduced from Rs. 25 crore)	IVR BBB-/ Stable/ IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details https://www.infomerics.com/admin/prfiles/Lender-10-06-2022-ISL.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.