Press Release

Indian Sucrose Limited

February 23, 2024

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	150.00	IVR BB+/ Stable (IVR double B plus with Stable outlook)	Upgraded from IVR B/ Stable (IVR B with Stable outlook)	Simple
Proposed Long Term/ Short Term Bank facilities	20.00	IVR BB+/ Stable/ IVR A4+ (IVR double B plus with Stable outlook and IVR A four plus)	Upgraded from IVR B/ Stable/ IVR A4 (IVR B with Stable outlook and IVR A four)	Simple
Total	**170.00 (Rupees One hundred seventy crore only)**			

Details of Facility are in Annexure 1

Detailed Rationale

Infomerics has upgraded the ratings assigned to the bank facilities of Indian Sucrose Limited (ISL) considering that there were no delays in debt servicing obligations of the company and all the penal charges levied were due to technical error from banker's end, which were reversed during December 2023. Further, the ratings also factor in the 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, satisfactory scale of operations and profitability during FY23, but moderation in performance during 9MFY24 due to delay in the crushing season by around 15 days, which started from the month of December, 2023. This will however, extend the crushing season during Q4FY24, and the company is likely to improve the profitability during Q4FY24. However, these rating strengths continue 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.
- 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 on a sustained basis.
- Elongation in the operating cycle impacting 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 to perennial Beas River

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 ~10.38% in FY2023.

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. In FY2023, ISL derived 97.38% of its revenues from sugar operations while 2.62% revenue was garnered from power cogen businesses, respectively. As against almost same level 97.68% revenues from its sugar business while power units drove 2.32% of its revenues, respectively, in FY2022.

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. Infomerics will continuously follow the developments in the sugar industry and evaluate their impact on sugar companies.

Satisfactory scale of operations and profitability during FY23, but moderation in performance in 9MFY24

The company's operating revenues increased to Rs. 451.77 crore in FY2023 from Rs.442.77 crore in FY2022 mainly due to the increase in the realisation value of sugar along with the increase in volume led by the increased demand, with the change in government regulations. Though EBIDTA marginally improved to 14.34% in FY23 from 13.32% in FY2022 due to decrease in the overhead cost as compared to previous year, PAT margin reduced to 6.49% in FY2023 from 8.28% in FY2022. However, the net profit margin increased as compared to other previous normal years since there was adjustment of Deferred tax expenses (Rs. 11.12 crore) in FY2022. However, PAT margin before adjustment of deferred tax also remained at 5.75% in FY2022. The topline increased to Rs.267.75 crore the 9MFY24 as compared to Rs. 262.56 crore 9MFY23. The profitability margins has declined due to the increase in the maintenance cost as the company goes through repairs and maintenance, and increase in the interest expenses. Moreover, there was delay in the crushing season by around 15 days, which started from the month of December, 2023, which also impacted the profits of the company adversely during 9M FY2024. This will however, extend the crushing season during Q4FY24, and the company is likely to improve the profitability during Q4FY24.

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 & Applicable Criteria: Standalone

Rating Methodology for Manufacturing Companies

Criteria for assigning rating outlook

[Financial Ratios & Interpretation (Non-Financial Sector)]

[Default Recognition Policy]

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.40.00 crore to Rs.44.00 crore as against the expected debt repayments of ~Rs.12 crore to Rs.10 crore during FY2024 to FY2026. The average working capital utilisation of the fund based sanctioned limits for the 12-month ended December 2023 remained at ~88% providing moderate liquidity comfort. However, liquidation of the sugar stock at remunerative realisations also remains crucial to the liquidity of the company.

About the Society

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 59.50 MW power cogeneration plant. In 2000, Yadu Corporation took over the control of the company at that time it was a lossmaking 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	31.03.2022	31.03.2023	9MFY23	9MFY24
	Audited	Audited	Unaudited	Unaudited
Total Income	442.77	451.77	262.56	267.75
EBIDTA	59.00	64.80	38.38	29.33
PAT	37.27	30.01	6.70	0.65
Total Debt	179.98	223.16	-	-
Tangible Net Worth	151.41	181.46	-	-
EBDITA Margin (%)	13.32	14.34	14.62	10.95
PAT Margin (%)	8.28	6.49	2.55	0.24
Interest Coverage	3.10	2.60	2.07	1.48

Overall Gearing Ratio (x)	1.19	1.23	-	-

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA:

Care Ratings Limited has maintained the ratings under Issuer Not Cooperating category on account of non-receipt of information despite repeated request to provide information for monitoring the ratings via press release dated September 12, 2023.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)					Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
		Type	Amount outstanding (Rs. Crore)	Rating	(October 9, 2023)	(July 19, 2023)	(June10, 2022)	(December 02, 2021)	(October 6, 2020)
1.	Cash Credit	Long Term	150.00	IVR BB+/ Stable	Revised to IVR D and simultaneously upgraded to IVR B/ Stable	IVR BB+/ Negative ISSUER NOT COOPERATING*	IVR BBB-/ Stable	IVR BB+/ Positive	IVR BB+/ Stable
2.	Proposed Fund Based/ Non Fund Based	Long Term/Short Term	20.00	IVR BB+/ Stable/ IVR A4+	Revised to IVR D and simultaneously upgraded to IVR B/ Stable/ IVR A4	IVR BB+/ Negative/ IVR A4+ ISSUER NOT COOPERATING*	IVR BBB-/ Stable/ IVR A3	IVR BB+/ Positive / IVR A4+	IVR BB+/ Stable/ IVR A4+

** Issuer did not cooperate; based on best available information*

Name and Contact Details of the Rating Analyst:

Name: Mr. Sandeep Khaitan

Tel: (033) 4803 3621

Email: sandeep.khaitan@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com

Annexure 1: Details of Facility

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	150.00	IVR BB+/ Stable

Proposed Fund Based/ Non Fund Based	-	-	-	20.00	IVR BB+/ Stable/ IVR A4+

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/lender-Indian-Sucrose-feb24.pdf

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

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.