Press Release

Indian Sucrose Limited
December 02, 2021

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Previous Ratings	Rating Action
1	Bank Facilities- Fund Based	150.00	IVR BB+/Positive Outlook (IVR Double B Plus with Positive Outlook)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	Rating Reaffirmed and outlook revised to positive from stable
2	Proposed Bank Facilities- Short Term/ Long Term	25.00	IVR BB+/Positive Outlook (IVR Double B Plus with positive Outlook), IVR A4+ (IVR A four Plus)	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook),IVR A4+ (IVR A four Plus)	Rating Reaffirmed and outlook revised to positive from stable
	Total	**175.00**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the outlook factors in the constructive developments in the sugar industry in the recent like increase in sugar and ethanol realisations which are ultimately expected to impact on the profitability of the company which to an extent also remains material to its liquidity.

The reaffirmation in the rating to the bank facilities of Indian Sucrose Ltd (ISL) continues to factor in the long presence of the company in the catchment area of Hoshiarpur, Punjab resulting in established relationship with the cane growers ensuring year on year cane supply and, hence maintaining adequate operational efficiencies. The reaffirmation in the rating also remains attributed to the location benefits by virtue of its presence in the Beas valley as also the extensive experience of promoters in sugar industry. The reaffirmation also factors in the improvement in profitability in FY2021 along with moderate debt metrics.

The sugar industry overall also benefits from the favourable govt policies of the government resulting in the fiscal support to the industry.

The rating strengths are partially offset by considerable dip in operating revenue in FY2021, attributed to lower sugar sales as also its working capital-intensive nature of operations. The ratings also remained constrained by the exposure of the sugar to agro climatic risks and cyclical trends in sugar business as also and Government policies on cane pricing and sugar trade.

Infomerics also notes that ISL has informed the stock exchanges about the proposed capex of Rs. 480 crore through a mix of greenfield and brownfield route. However, as per IVR's discussion with the management no concrete plans about the proposed capex have been finalized as on date. ISL has also provided an undertaking stating that it will inform Infomerics with any developments regarding the proposed projects and any other material event associated with the company in future.

Key Rating Sensitivities:

Upward Rating Factor

- Material improvement in the share of the byproducts in the revenue
- Substantial improvement in the credit metrics

Downward Rating Factor

- Any substantial stretch in the operating cycle increasing dependence on external borrowings
- Any substantial reduction in the scale and profitability

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters in the sugar industry, long track of operations

ISL located in Mukerian, Hoshiarpur (Punjab) was incorporated in the year 1989. The promoters of ISL have around two-decade-long experience in the sugar industry. Long standing presence in the industry and its catchment area has helped the company to build sustainable relationship with both customers and suppliers respectively resulting in regular offtake of the sugarcane products while ensuring seamless supply of cane year on year.

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 crushing capacity utilisations at around 80% in the past fiscals as also close to 37.23% utilisations for the power cogeneration unit. Sustenance albeit improvement of capacity utilisations especially in the sugar unit will be a key monitorable, going forward. The company in the past fiscals also has reported adequate sugar recovery rates (above 10% levels) in the past seasons.

Improvement in profitability metrics in the past fiscals attributed to cost controls

ISL EBIDTA margins have improved in FY2021 driven by partially on rationalization of some operating expenses as also relatively low raw material costs as compared to the past fiscal. The EBITDA margin has increased from 9.50% in FY2020 to 12.22% in FY2021. With improvement in EBITDA margin, the PAT margin has improved from 2.30% in FY2020 to 5.15% in FY2021. The gross cash accruals of the firm also grew from Rs.21.12 crore in FY20 to Rs.30.41 crore in FY2021. The company in H1FY2022 has reported EBIDTA margin of 8.72%. While the PBT has remained at Rs. 12.06 crore in H1FY2022, PAT remained at Rs. 13.84 crore due to deferred tax adjustments of Rs. 11.29 crore in same period.

Adequate return indicators; Moderate credit metrics in past fiscals

The debt profile in the past fiscals in line with the industry has remained dominated by working capital followed by the term loans. While the overall gearing has remained at 1.69 times in FY2021, the same remained at 1.72 times in FY2020. Given the adequate absolute profits, the coverage indicators and return indicators have remained satisfactory in the past fiscals. The interest coverage remained at 2.90 times in FY2021 as compared to 2.03 times in FY2020; the DSCR remained at 1.95 times in FY2021 as compared to 1.76 times in FY2020. While RoCE remained at 14.93% in FY2021, the same has remained at 15.23% in FY2020. RoNW has remained at 22.38% in FY2021 as compared to 14.05% in FY2020.

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

The sugar industry 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

Dip in operating revenue in FY2021

The company hitherto has procured 90% of its revenues from sugar which has been fluctuating followed by byproducts. The company in FY2021 reported revenues of Rs.430.58 crore as against Rs. 532.01 crore in FY2020 due to the impact of overall lockdown which partially affected the movement of sugar in absence of adequate logistics. The company on average has garnered close to 10% of revenues from byproduct sale. Recovery of operating revenue and the improvement of share of byproducts in the revenue mix will be a key monitorable, going forward. The extent of expansion of the byproduct portfolio which remains the key profit driver will be a key monitorable going forward. The company in H1FY2022 has reported revenues of Rs. 138.28 crore.

High working capital intensity on year end sugar holdings

The company's operations remain working capital intensive inherent to the sugar industry depicted by the operating cycle of 106 days in FY2021 and 69 days in FY2020 mainly propelled by yearend inventory build-up. The inventory days though have increased to 197 days in FY2021 to 173 days in FY2020. 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

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.

Analytical Approach and Applicable Criteria

Standalone

Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity profile of the company is expected to be adequate especially with accruals expected to be in range of Rs.37.00 crore to Rs.42.00 crore as against the expected debt repayments of Rs. 6.98 crore to Rs.16.75 crore in the period FY2022 to FY2024. Nonetheless, the average working capital utilisation of the sanctioned limits for the 12-month period ending September 2021 remained at 36% respectively which provides some liquidity comfort. The cash balance as on March 31,2021 remained at Rs. 2.94 crore. Also, sale of the sugar stock at remunerative realisations also remains crucial to the liquidity of the sugar mills.

About the Company

Indian Sucrose Limited (ISL) was originally promoted by Oswal Group as Oswal Sugars Ltd in 1989 and the unit was set up in 1990-91 at G. T. Road, Mukerian, Distt. Hoshiarpur, Punjab and is engaged in the manufacturing of White Crystal Sugar. In 2000, Yadu Corporation took over the control of the company in the year 2000 when it was loss making unit. The day to day affairs of the company are being looked after by Sh. Kunal Yadav Managing Director of the company. Since the takeover of the unit, the capacity of the unit has expanded from 2500 TCD to 9000 TCD besides adding the other balancing equipment and machinery items. While the power is exported to Punjab state power distribution companies and the molasses is sold to nearby distilleries.

Financials:

(Rs. crore)

For the year ended As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	532.01	430.58
EBITDA	50.52	52.62
PAT	12.28	22.37
Total Debt	160.98	204.15
Adjusted Net worth	90.24	112.87
EBITDA Margin (%)	9.50%	12.22%
PAT Margin (%)	2.30%	5.15%
Overall Gearing Ratio (x)^	1.72	1.69

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	150.00	IVR BB+/Positive Outlook	IVR BB+/Stable Outlook (October 06, 2020)	-	-
2.	Proposed Long term/ Short term Banking Facilities	Long Term/ Short Term	25.00	IVR BB+/Positive Outlook/ IVR A4+	IVR BB+/Stable Outlook/ IVR A4+ (October 06, 2020)	-	-

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.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	150.00	IVR BB+/Positive outlook
Proposed Bank Facilities- Short Term/ Long Term	-	-	-	25.00	IVR BB+/Positive Outlook, IVR A4+

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-IS.pdf

Annexure 3: List of companies considered for consolidated analysis: NA

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1	Long Term Bank Facilities – Cash credit	Simple
2	Proposed Bank Facilities- Short Term/ Long Term	Simple

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.