Dwarikesh Sugar Industries Limited

July 17, 2017

Summary of rated instruments

Instrument*	Amount (Rs. crore)	Rating Action
Bank Loan Ratings		
Fund-based Term Loan	122.49	[ICRA]A+ (Stable); Upgraded from [ICRA]A- (Stable)
Fund-based Cash Credit	285.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A- (Stable)
Non-fund Based	5.00	[ICRA]A+ (Stable); Upgraded from [ICRA]A- (Stable)
Unallocated limit	187.50	[ICRA]A+ (Stable); Upgraded from [ICRA]A- (Stable)

*Instrument details are provided in Annexure – 1

Rating action

ICRA has upgraded the long-term rating to [ICRA]A+ (pronounced ICRA A plus) from [ICRA]A- (pronounced ICRA A minus)[1] for the term loan facilities of Rs. 122.49 crore (revised from Rs. 163.93 crore), cash credit limits of Rs. 285.00 crore, non-fund based limits of Rs. 5.00 crore and unallocated limits of Rs. 187.50 crore (revised from Rs. 146.06 crore) of Dwarikesh Sugar Industries Limited (DSIL). The outlook on the long-term rating is Stable.

Rationale

The rating upgrade factors in the better-than-anticipated operational and financial performance of DSIL in FY2017 as well as the fact that the bulk of its operational cash flows have been used to reduce debt levels and thereby, improve debt metrics. This apart, ICRA has factored in the continued favourable outlook for its core sugar business in FY2018, supported by the recent hike in import duty and a tight domestic stock situation. This is likely to support the sugar prices in the near term, and is expected to result in healthy profits and accruals in FY2018 as well. Consequently, ICRA expects DSIL to use these cash flows for further debt repayment and largely complete its long-term debt obligations by March 31, 2018. The ratings continue to factor in the company's forward integration into cogeneration and distillery businesses, which provide alternate revenue streams and reduce the impact of the cyclicality of the sugar business to an extent.

DSIL's ratings, however, are constrained by the risks as associated with high volatility in sugar prices, the inherent cyclicality in the sugar business; agro-climactic risks related to cane production, and government policies on cane pricing and sugar trade. In this context, ICRA notes that the cane price (state advised price or SAP) in Uttar Pradesh (UP) is still not linked to sugar prices.

---

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

Key rating drivers

Credit strengths

- Significant size of sugar operations, which are forward integrated and operationally efficient
- Substantial increase in cane crushing to 28.33 lakh metric tonne (MT) in SY2017 from 21.05 lakh MT in SY2016; further, DSIL reported an all-time high recovery at 11.78% in SY2017
- Significant improvement in the company's financial profile as reflected by the increase in profitability, decline in gearing and improvement in debt coverage metrics in FY2017
- Healthy sugar prices in Q1 FY2018 are likely to help in unlocking the inventory value; in the near term, the hike in the import duty is likely to support the prices and augur well for profitability in FY2018
- Decline in long-term debt during FY2017 supported by repayment from healthy cash accruals and equity of Rs. 59.40 crore; further, DSIL is expected to repay a significant portion of the long-term debt during FY2018

Credit challenges

- Geographical-concentration risk as all the three units are located in UP
- Profitability of UP-based sugar mills remain vulnerable to the state government's policy on cane prices
- Profitability of sugar mills remain exposed to the cyclical nature of the sugar industry, agro-climatic risks related to cane production, government policies related to sugar trade and counter-party credit risk associated with the sale of power to the utility

Description of key rating drivers

DSIL has a significant size of sugar operations. It is also substantially forward integrated into cogeneration and distillery businesses, which continue to provide alternate revenue streams and offer some cushion against cyclicality in the sugar business. The company has two sugar units in the Bijnor district of UP that enjoy location advantage with favourable soil conditions, resulting in relatively better yields and recovery rates. In SY2017, DSIL reported an all-time high cane crushing and recovery rate, primarily supported by new cane variety (Co-0238). Sugar realisations increased by 35.64% in FY2017 to Rs. 35,285/MT on the back of the tight domestic stock situation. This, coupled with the healthy recovery rate, supported the operating profitability in FY2017, which increased to 22.80% from 13.62% in FY2016. Further, the realisations are expected to remain firm in the near term supported by the recent government action of increasing the import duty. Despite the anticipated increase in the domestic sugar production for SY2018, the production is likely to at best match the consumption and result in closing stock of around 4.0–4.5 million MT. This is likely to augur well for DSIL's core sugar business in FY2018.

The company's long-term debt declined to Rs. 176.57 crore as on March 31, 2017 from Rs. 332.60 crore as on March 31, 2016. This is on account of it prepaying a significant portion of the debt owing to healthy cash accruals and equity of Rs. 59.40 crore during FY2017. This resulted in an improvement in the capital structure to 1.87 times as on March 31, 2017 from 7.99 times as on March 31, 2016. Further, DSIL witnessed improvement in debt coverage metrics in FY2017 – Net Cash Accruals/Total Debt to 33%, interest coverage to 6.47 times and Total Debt/OPBDIT to 1.97 times from 10%, 2.10 times and 6.35 times, respectively, in FY2016. With the continued favourable outlook for FY2018, DSIL is expected to further prepay the long-term debt during the year. These, together with expected healthy profitability levels, are likely to further improve the gearing and debt coverage metrics in FY2018.

The sugar industry, being directly dependent on the sugarcane crop and its yield, is susceptible to agro-climatic risks. The industry is also highly regulated, with various government acts governing virtually all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by-product pricing. In UP, the profitability of the sugar mills remains vulnerable to the state government's policy on cane prices.

Key financial indicators

	FY2016	FY2017
Operating Income (Crore)	794.34	1190.40
PAT (Crore)	38.97	158.46
OPBDIT/ OI (%)	13.62%	22.80%
RoCE (%)	12.12%	31.23%
Total Debt/ TNW (times)	7.99	1.87
Total Debt/ OPBDIT (times)	6.35	1.97
Interest coverage (times)	2.10	6.47
NWC/ OI (%)	50%	41%

OPBDIT: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit after Tax;
RoCE: Return on Capital Employed; TNW: Total Net-Worth; NWC: Net Working Capital.

Analytical approach

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

Links to applicable criteria

Rating Methodology for Entities in the Sugar Industry

Company profile

DSIL, promoted by Mr. Gautam R. Moraraka, was incorporated in 1994 through the establishment of a 2500 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 capacity has since been increased to 21,500 TCD. It has three sugar plants, viz. Dwarikesh Nagar (DN), Dwarikesh Puram (DP) and Dwarikesh Dham (DD), at present. DN and DP are located in the Bijnor district and DD is located in the Bareilly district. Besides, DSIL has cogeneration facilities of 17 MW at DN, 33 MW at DP and 36 MW at DD unit. Of these, DSIL exports 8 MW from DN, 24 MW from DP and 24 MW from DD unit to the state grid. The company has a distillery of 30000 litres per day at its DN unit, which is capable of manufacturing industrial alcohol and ethanol.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

ICRA

Rating History for last three years

Table

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years						
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2017			Month- year & Rating in FY2016		Month- year & Rating in FY2015	
				July 2017	March 2017	December 2016	July 2016	March 2016	July 2015	March 2015	August 2014
1	Term Loan	Long Term	122.49	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (Positive)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)	[ICRA]B+	[ICRA]B+
2	Cash Credit	Long Term	285.00	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (Positive)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)	[ICRA]B+	[ICRA]B+
3	Non-fund Based	Short Term	5.00	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (Positive)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)	[ICRA]B+	[ICRA]B+
4	Unallocated	Long Term	187.50	[ICRA]A+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB- (Positive)	[ICRA]BB+ (Positive)	[ICRA]BB (Stable)	[ICRA]B+	[ICRA]B+

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

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan-I	-	9.55%	March 2019 – September 2022	122.49	[ICRA]A+ (Stable)
Cash Credit	-	9.35%-10.05%	-	285.00	[ICRA]A+ (Stable)
Non-fund Based Limits	-	-	-	5.00	[ICRA]A+ (Stable)
Unallocated	-	-	-	187.50	[ICRA]A+ (Stable)

Source: Dwarikesh Sugar Industries Limited

ICRA

Name and Contact Details of the Rating Analyst(s):

Sabyasachi Majumdar
+91 124 4545304
sabyasachi@icraindia.com

Anupama Reddy
+91 40 40676516
anupama.reddy@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

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**

ICRA Limited

CORPORATE OFFICE
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300; Fax: +91 124 4050424
Email: info@icraindia.com, Website: www.icra.in

REGISTERED OFFICE
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50; Fax: +91 11 23357014

Branches: **Mumbai**: Tel.: + (91 22) 24331046/53/62/74/86/87, Fax: + (91 22) 2433 1390 **Chennai**: Tel + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294, Fax + (91 44) 2434 3663 **Kolkata**: Tel + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008, Fax + (91 33) 2287 0728 **Bangalore**: Tel + (91 80) 2559 7401/4049 Fax + (91 80) 559 4065 **Ahmedabad**: Tel + (91 79) 2658 4924/5049/2008, Fax + (91 79) 2658 4924 **Hyderabad**: Tel +(91 40) 2373 5061/7251, Fax + (91 40) 2373 5152 **Pune**: Tel + (91 20) 2552 0194/95/96, Fax + (91 20) 553 9231