# Indian Sucrose Limited

**January 31, 2020**

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 150.00 | **CARE BB; Stable (Double B; Outlook: Stable)** | **Reaffirmed** |
| **Total** | **150.00 (Rs. One hundred and fifty crore only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Indian Sucrose Limited (ISL) continues to be constrained on account of the cyclical nature of the sugar industry and regulated nature of the business, working capital intensive nature of operations and moderate liquidity position of the company. The rating, however, derives strength from the experienced promoters with long track record of operations, improved profitability characterized by growth in PBILDT margin of the company in FY19 (refers to period from April 01 to March 31) and moderate financial risk profile of the company.

**Key Rating Sensitivities**

**Positives**

- Ability of the company to effectively manage its working capital requirements with growing scale of operations.
- Ability of the company to scale up its operations by 20% or more from the past trends and maintain stable profitability margins on a sustained basis.

**Negatives**

- Deterioration in capital structure with overall gearing ratio rising beyond 3.00x on sustained basis.
- Adverse changes in government policies affecting the operations and cash flow of the entity.

**Detailed description of the key rating drivers**

**Key Rating Weaknesses**

***Cyclical & Regulated nature of sugar business***: The industry is cyclical by nature and is vulnerable to the government policies for various reasons like its importance in the Wholesale Price Index (WPI) as it classifies as an essential commodity. The government on its part resorts to various regulations like fixing the raw material prices in the form of State Advised Prices (SAP) and Fair & Remunerative Prices (FRP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

***Working capital intensive operations***: Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. Average utilization at maximum level stood moderate at approximately 97.59% for the past 12 months ending December 2019.

***Moderate Liquidity:*** The liquidity profile of the company remains moderate with current ratio of 0.99x as on March 31, 2019 (PY: 1.00x). Operating cycle of the company, though improved, stood high at 107 days as on March 31, 2019 (PY: 138 days). The company has high inventory days at 242 days in FY19 (PY: 168 days) due to imposition of sales quota on sugar companies which has led to high inventory days. Creditor days have also increased to 165 days in FY19 (PY: 46 days) due to increase in trade payables of the company. The average working capital utilization at maximum level for past 12 months period ended December 2019 stood high at 97.59%. Cash and bank balances stood at Rs. 14.09 crore as on March 31, 2019 (including fixed deposits of Rs. 5.64 crores) as against Rs. 13.56 crore as on March 31, 2018 (including fixed deposits of Rs. 5.29 crores). The company have total debt repayment of ~Rs. 6.22 crores in FY20 and cane arrears as on December 05, 2019 stood at ~Rs.52 crores.

**Key Rating Strengths**

***Experienced promoters along with established & long track record of operations:*** The company was originally promoted by OSWAL GROUP as Oswal Sugars Ltd in 1989 and the unit was set up in 1990-91, with initial crushing capacity of 2500 TCD. The present management, Yadu Corporation, took over the control of the company in the year 2000. MD of the company, Mr. Kunal Yadav, has an MBA degree from LBS (UK) and experience of over 15 years in sugar & beverage industry. With over 25 years of presence, ISL is an established player in the sugar industry. It sells white crystal sugar

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

under the brand name 'Sweeto' and by products such as Molasses, Bagasse etc. At present ISL has sugarcane crushing capacity of 9000 TCD and a cogeneration power plant of 19.50 MW capacity which uses bagasse as input.

***Improved financial risk profile***: During FY19, PBILDT margins of ISL improved to 16.86% from 9.62% in FY18. The primary reason for the same is lower cost of raw material consumed. During FY19, Punjab govt. provided subsidy of Rs. 25 on per QTL of sugarcane purchased by the sugar mills in Punjab, due to which total raw material cost of ISL declined and profitability of the company improved. However, PAT margin of the company declined from 1.91% in FY18 to 1.17% in FY19 due to higher interest expenses and non-operating expenses of Rs. 25.78 crore in FY19. During earlier years, ISL paid total interest of Rs. 34.16 crores on KCC loans taken by the farmers, out of which ISL has written off amount of Rs. 25.78 crores in FY19 as non-recoverable from the farmers, the auditor of the company has also provided a qualified opinion due to the same, as per auditor's view the entire amount of Rs. 34.16 crores appears to be doubtful. The total income from operations declined by 14.67% to Rs 373.40 crores in FY19 from Rs 437.62 crores in FY18 attributable to the lower sugar sales. This was mainly on account of allocation of monthly sales quota by the government to all the manufacturers in the sugar industry as a measure to control its prices. Overall gearing of the company improved to 1.97x as on March 31, 2019 as compared to 2.30x as on March 31, 2018 on account of on account of lower debt. Total debt of the company has reduced from Rs. 207.95 crore on March 31, 2018 to Rs. 169.19 crore, primarily driven by reduction in the working capital borrowings from Rs. 185.17 crore on March 31, 2018 to Rs. 148.18 crore as on March 31, 2019.
In H1FY20 (refers to period from April 01 to September 30), total income from operations increased to Rs 263.37 crore from Rs 145.35 crore in H1FY19 primarily due to higher sales in the sugar segment. PBILDT and PAT of the company improved to Rs. 29.01 crore and Rs. 7.71 crores in H1FY20 as against Rs. 23.86 crore and Rs. 3.86 crores respectively in H1FY19.

***Industry Outlook***
Indian Sugar Mills Association (ISMA) estimates sugar production to decline by around 21.6% to 26 million tonnes during the sugar season 2019-20 from 33.16 million tonnes during the sugar season 2018-19 on the back of lower total cane acreage at 48.31 lakh hectares, which is about 12% less than sugar season 2018-19 on pan India basis of 55.02 lakh hectares. The crop in the two main sugarcane growing States, namely, Maharashtra and Karnataka which contribute around 35 - 40% of country's sugar, have been adversely impacted due to various reasons including lower rainfall, drought and floods in different areas of the states.. The industry is however carrying an all-time high carry over stock of 14.58 million tonnes this year, which is much more than the normative requirement of 2 months stock that India keeps to avoid any disturbance in sugar supply. However, due to various government regulations, such as increase in minimum sale price of sugar to Rs.31 per kg in Feb 2019 from Rs. 29/kg, the prices have remain stable. Other government initiatives such as increase in the ethanol prices to support sugar mills and providing financial assistance to mills to help them clear payment to farmers are also expected to augur well for the industry. Sugar production, though expected to be lower in SS2019-20, is expected to be more than domestic requirement (ISMA). Going ahead, Government's policy in respect of SAP, MSP, buffer stock, subsidies, etc., shall be critical for the sector.

**Analytical approach:** Standalone

**Applicable Criteria**
**Criteria on assigning Outlook and Credit Watch to Credit Ratings**
**CARE's Policy on Default Recognition**
**Rating Methodology-Manufacturing Companies**
**CARE's Methodology for Sugar Sector**
**Financial ratios - Non-Financial Sector**

**About the Company**

Indian Sucrose Limited (ISL), incorporated on 12th December 1990, was originally promoted by Oswal Group as Oswal Sugars Limited with an initial installed capacity of 2500 TCD (Tonnes cane per day). The present management, Yadu Corporation, took control of the company in the year 2000. The Managing Director of the company, Mr. Kunal Yadav, has an MBA degree from LBS (UK) & an experience of over 15 years in the sugar & beverage industries. At present, ISL is engaged in the manufacturing of white crystal sugar & its by-products such as molasses & bagasse, with a cane crushing capacity of 9000 TCD. The company also co-generates power with current aggregate capacity of 19.50 MW.

| Brief Financials (Rs. crore) | FY18 (A) | FY19 (A) |
|---|---|---|
| Total operating income | 437.62 | 373.40 |
| PBILDT | 42.12 | 62.96 |
| PAT | 8.36 | 4.36 |
| Overall gearing (times) | 2.30 | 1.97 |
| Adjusted Overall gearing (times)* | 2.64 | 2.18 |
| Interest Coverage | 3.01 | 2.95 |

** Adjusted for investments in group companies and bank guarantee provided by the company.*
*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 150.00 | CARE BB; Stable |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1. | Fund-based - LT-Cash Credit | LT | 150.00 | CARE BB; Stable | - | 1)CARE BB; Stable (04-Mar-19)<br>2)CARE BB; Stable (04-May-18) | 1)CARE BB+; Stable (24-Nov-17) | - |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

| Name of the Instrument | Detailed explanation |
|---|---|
| **A. Financial covenants** | |
| 1. Cash Credit | Interest rate: MCLR 1 year+4.45% |
| 2. Term loan | Interest rate: MCLR 1 year+4.45%+0.10% |
| **B. Non-financial covenants** | |
| 1. Cash Credit | The bank reserves the right to vary the ROI and the service charges based on the market conditions/risk rating/conduct of the account. |
| 2. Term loan | If there is any delay in receiving the subsidy from Punjab govt., company will have to pay installment/interest from their own sources |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications*

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