

Indian Sucrose Limited

March 04, 2019

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Indian Sucrose Limited takes into account moderation in the company's financial performance in FY18 and 9MFY19 on account of lower sugar recovery rate and lower sales realization due to excess sugar supply in the Indian domestic market. Further the rating continues to remain constrained on account of highly regulated nature of the sugar industry and working capital intensive nature of operations. The rating however, continues to derive strength from experience of the promoters as well as established & long track record of operations. Going forward, company's ability to efficiently manage its working capital requirements along with favorable government policies & healthy industry scenario, would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderation in financial performance

The financial risk profile of the company has moderated during FY18 owing to lower sugar recovery as compared to FY17. The company has recovery rate of 10.07% during FY18 as compared to recovery rate of 10.78% during FY17, leading to decline in profitability during FY18. Due to this the company has PBILDT margin of 10.05% during FY18 as compared to 16.77% during FY17. Also due to one time loss of Rs.8 cr on sale of scrap, the company net profit has declined to Rs.8.35 cr during FY18 as compared to Rs.29.87 cr during FY17. Further due to surplus sugar stock in the market, there has been pressure on the realization during 9MFY19, leading to decline in PBILDT and PAT margin to 10.24% and 0.90% respectively as compared to PBILDT and PAT margin 11.24% and 3.41% during 9MFY18.

Working capital intensive nature of operations

Cane crushing season in India begins around October every year & lasts till the month of March as sugarcane is typically harvested between June & December every year. Due to this, inventory holding periods are high for sugar mills, leading to working capital intensive operations. ISL had an operating cycle of 143 days as on March 31, 2018 and 195 days as on March 31, 2017 owing to a high inventory holding period of 175 days as on March 31, 2018 and 202 days as on March 31, 2017. Due to this, the company had high working capital borrowings amounting to Rs.185.17cr at the end of FY18 including outstanding cash credit of Rs.125.62cr & warehouse receipts of Rs.59.55cr. Going forward the ability of the company to manage its working capital cycle efficiently would be key rating sensitivity.

Highly regulated nature of the sugar industry:

Today Indian sugar industry's annual output is worth approximately Rs.80,000 crores. Due to this, sugar industry in India is highly regulated, which exposes sugar manufacturers to regulatory risk. 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). FRP is the minimum price set by the central government for a particular sugar season. SAP is the minimum price set by state governments of respective states by taking into account specific characteristics of sugarcane production of these states & is higher than the FRP. All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies.

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 under the

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

brand name 'Sweeto' and by products such as Molasses, Bagasse etc. At present ISL has sugarcane crushing capacity of 8000 TCD and is supported by over 300 employees including contractual labour.

Improving operating performance but low capacity utilization and lower recovery rates

During FY18, ISL's revenue from sale of sugar increased to Rs.397.29cr as compared to Rs.360.13cr during FY17, due to increase in average selling price of sugar from Rs.3296 per quintal in FY17 to Rs.3648 per quintal in FY18 and also production of sugar increased from 10.45 lacs quintal in FY17 to 12.63 lacs quintal in FY18. But, recovery rates have gone down from 10.78% in FY17 to 10.07% in FY18. Further capacity utilisation also came down from 97.45% in FY17 to 90.60% in FY18 due to initial stabilization issues in the new plant.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Manufacturing Companies](#)

[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 8000TCD. The company also co-generates power with current aggregate capacity of 22 MW, out of which surplus of approx. 6 MW is supplied to Punjab State Power Corporation Limited (PSPCL) through power purchase agreement (PPA).

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	386.04	419.03
PBILDT	64.72	42.10
PAT	29.87	8.35
Overall gearing (times)	2.74	2.30
Interest coverage (times)	3.41	2.55

A: Audited

Liquidity Analysis

Due to high operating cycle, reliance of sugar mills on short term borrowings to manage liquidity & meeting working capital requirements is an inherent trait of the sugar industry. Due to this, at the end of FY18, ISL had outstanding cash credit of Rs.125.62cr. Further due to the seasonal nature of operations, working capital requirements vary throughout the year. From January 2018 till December 2018, ISL's utilization of the cc limits was highest for the month of May'18 and November'18 (88.40% and 87.61% average utilization respectively). Avg. cc utilization for the last 12 months ending December 2018 was 70.75%.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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

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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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	150.00	CARE BB; Stable	1)CARE BB; Stable (04-May-18)	1)CARE BB+; Stable (24-Nov-17)	-	-

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