

Riga Sugar Company Limited

March 14, 2018

Rating

| Facilities | Amount (Rs. crore) | Rating ¹ | Rating Action |
|----------------------------|---|--|-------------------|
| Long-term Bank Facilities | 104.14 (reduced from 124.80) | CARE B+;Stable (Single B Plus; Outlook: Stable) | Reaffirmed |
| Short-term Bank Facilities | 5.00 | CARE A4 (A Four) | Reaffirmed |
| Total | 109.14 (Rupees one hundred and nine crore and fourteen only) | | |

Detailed Rationale

The ratings assigned to the bank facilities of Riga Sugar Co. Ltd continue to remain constrained by weak financial risk profile marked by high gearing ratios during FY17 & operating losses during 9MFY18, working capital intensive nature of the business, susceptibility of sugar industry to the vagaries of nature, cyclicity associated with the sugar industry and the regulated outlook of the same. The above constraints are partially offset by experienced promoters, long track record of the company, improvement in total income and PBILDT margins during FY17 and forward integration initiatives taken by the company.

The ability of the company to improve its financial risk profile and improve its operating profitability would be the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

High gearing ratios in FY17 & Deterioration in total income and losses at the operating level in 9MFY18.

The promoter group has infused in Rs.5.74crore (0.68cr in FY15, 2.66cr in FY16 & Rs.1.80crore in FY17) during the last three years to support the business. Overall gearing ratios however continued to deteriorate and remained high at 29.33 times as on March 31, 2017 on account of erosion of net worth arising out of accumulated losses and increasing total indebtedness. During 9MFY18 RSCL reported a negative PBILDT of Rs.11.33crore on a total operating income of 72.51crore vis-à-vis PBILDT of Rs.4.75crore on total operating income of Rs.126.53crore. The company has funded the cash losses and paid all its interest & installments payments during 9MFY18, through stretching of creditors' period.

Dependence on vagaries of nature

Sugar industry is agro based and its performance is dependent on sugarcane production which, in turn, depends on the climatic conditions due to inadequate irrigation facility in the country. Consequently, the performance of RSCL is dependent on the sugarcane production which may get adversely affected due to adverse weather conditions and diversion to alternate crops.

Working capital intensiveness & Regulated nature of the industry

Since sugar is agro-based commodity (with sugar cane crushed mainly during November to April) and the sugarcane has to be crushed within a day or two of arrival in the mills, the sugar inventory is piled up during the SS and gradually released till the commencement of the next crushing season,, resulting into high inventory carrying cost and requirement of higher working capital. The working capital utilization has been high at around 95% during the last twelve months

Cyclical nature of industry

The industry is cyclical by nature and is vulnerable to the government policies. The government on its part resorts to various regulations like fixing the raw material prices in the form Fair & Remunerative Prices (FRP). Both the sugar and sugarcane prices are volatile and subject to government regulations. Sugarcane

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

prices are determined by the both central and respective state governments as minimum threshold price to be paid by the industry to the farmers. The various measures adopted by the government, viz. export subsidy on raw sugar, mandatory ethanol blending program, the new fixed pricing mechanism for ethanol supplied to OMCs extending soft loan to mills and raising the import duty on sugar are the supportive measures by the government to keep the sugar availability in the domestic market intact.

Key Rating Strengths

Experience promoter and long track record of the company

Company's sugar factory is one of the oldest sugar factories in India which was set-up in 1933 by The Belsund Sugar & Industries limited under British Management which was taken over by Dhanukas in 1950 and was subsequently transferred w.e.f.1.10.1981 to Riga Sugar Company Limited which was incorporated on 2nd September, 1980. Apart from producing sugar, RSCL, as forward integration initiatives, has ventured into production of ethanol and biomass based power. RSCL is currently managed by Shri O P Dhanuka (Chairman cum MD) who has 45 years of experience in the Sugar Industry. He had also been the President of Indian Sugar Mills Association.

Forward Integration Initiatives

Apart from producing sugar, RSCL, as forward integration initiatives, has ventured into production of ethanol/industrial spirits and biomass based power. The ethanol division utilizes the molasses produced by the sugar mills as their raw material for production of ethanol which is sold to petroleum marketing companies for blending with petrol. Similarly, the company has set up a captive power plant with aggregate capacity of 3 MW which uses bagasse as combustion fuel for generating power. The plant has started supplying power to state electricity substation w.e.f 14th January 2016. Forward integration into distilleries, power generation, bio-fertilizers gives value addition

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

Riga Sugar Company Limited (RSCL), incorporated in September 02, 1980, the flagship company of DHANUKA GROUP, currently has Sugar (5000 TCD), Distillery (50 KLPD), Ethanol (45 KLPD), Power plant (8 MW) & DAP/ Organic Fertilizer facilities in Riga, North Bihar. The sugar factory is one of the oldest sugar factories in India which was set-up in 1933 by The Belsund Sugar & Industries limited under British Management before being taken over by Dhanukas in 1950 and was subsequently transferred w.e.f.1.10.1981 to Riga Sugar Company Limited. During 9MFY18 RSCL reported a negative PAT of Rs.23.68crore on a total operating income of 72.51crore vis-à-vis loss of Rs.9.05crore on total operating income of Rs.126.53crore.

| Brief Financials of RSCL(Rs. in crore) | FY16(A) | FY17(A) |
|--|---------|---------|
| Total Operating Income | 178.84 | 187.87 |
| PBILDT | 13.34 | 15.12 |
| PAT | -2.29 | -4.84 |
| Overall Gearing | 18.21 | 29.33 |
| Interest Coverage | 0.92 | 1.01 |

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable.

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan | - | - | March 2023 | 26.64 | CARE B+; Stable |
| Fund-based - LT-Cash Credit | - | - | - | 77.50 | CARE B+; Stable |
| Non-fund-based - ST-Bank Guarantees | - | - | - | 5.00 | CARE A4 |

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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based - LT-Term Loan | LT | 26.64 | CARE B+; Stable | - | 1)CARE B+; Stable (21-Mar-17) 2)CARE B (14-Apr-16) | - | 1)CARE B (20-Feb-15) |
| 2. | Fund-based - LT-Cash Credit | LT | 77.50 | CARE B+; Stable | - | 1)CARE B+; Stable (21-Mar-17) 2)CARE B (14-Apr-16) | - | 1)CARE B (20-Feb-15) |
| 3. | Non-fund-based - ST-Bank Guarantees | ST | 5.00 | CARE A4 | - | 1)CARE A4 (21-Mar-17) 2)CARE A4 (14-Apr-16) | - | 1)CARE A4 (20-Feb-15) |

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