February 28, 2024

Dwarikesh Sugar Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	296.07	236.53	[ICRA]AA- (Stable); reaffirmed
Long-term fund-based- Working capital facilities	450.00	450.00	[ICRA]AA- (Stable); reaffirmed
Long-term non-fund based- Working capital facilities	30.00	30.00	[ICRA]AA- (Stable); reaffirmed
Long-term unallocated limits	23.93	83.47	[ICRA]AA- (Stable); reaffirmed
Total	**800.00**	**800.00**	
Commercial paper^	**300.00**	**300.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I; ^carved out of working capital limits*

Rationale

The rating reaffirmation takes into account Dwarikesh Sugar Industries Limited's (DSIL) operationally-efficient sugar mills with a healthy gross recovery rate of 11.93% in FY2023 (12.09% in FY2022), aided by the company's cane developmental activities and the forward-integrated operations. Moreover, the scale-up in distillery operations in the past two years and the cogeneration provide alternative revenue streams and cushion against the cyclicality of the sugar business to some extent. ICRA notes that the company's revenue will be driven by enhanced distillery volumes and stable domestic sugar realisations.

The company's profitability is likely to remain comfortable owing to firm sugar realisations and higher volumes from the distillery operations. The company's credit metrics remain strong even though the debt levels are expected to rise by year-end on the back of increased inventory holding. The distillery segment's increasing contribution to the operating income lends more stability to the cash flows, besides maintaining a comfortable inventory position. ICRA notes that the minimum support price (MSP) for sugar since introduction in FY2019 limited the downsides in the operating profits in the sugar surplus years compared to the past, though sugar prices have been higher than the MSP in the last few fiscals.

The ratings, however, remain constrained by the vulnerability of DSIL's profitability to the cyclical nature of the sugar industry (though the sharp fall in sugar prices has been curtailed after the introduction of MSP) and the agro-climatic risks related to cane production. Further, the profitability of sugar mills, including DSIL, is exposed to the policies of the Government of UP (GoUP) and the Central Government on cane prices, international trade, domestic quota, sugar and ethanol pricing and interest subvention loan for distillery capacity expansion.

The Stable outlook on the rating reflects ICRA's opinion that DSIL will continue to benefit from its healthy operational profile and the comfortable credit metrics.

Key rating drivers and their description

Credit strengths

Forward-integrated operations - DSIL operates sugar capacities of 21,500 tonnes crushed per day (TCD) at its three mills in UP. The operations are forward-integrated into the power and alcohol businesses — co-generation capacity of 96 megawatt (surplus – 56 MW) and distillery capacity of 337.5 kilolitres per day (KLPD) as on December 31, 2023. The integrated operation provides alternative revenues and cushions the profitability against the cyclicality in the sugar business. In 9M FY2024, the sugar and co-generation business accounted for around 72% of the company's revenue, while the distillery segment accounted

for ~28% (increased from 18% in FY2023) of the total revenue. The revenue contribution is expected to increase to over 30% from FY2024 with the new 175-KLPD distillery completing the first full year of operations. It would also moderate the seasonality associated with the sugar business, as distilleries operate for 320-330 days a year.

Operationally-efficient sugar mills with healthy recovery rates – The company's gross recovery rate for the sugar season slightly moderated to 11.93% in SY2023 from 12.09% in SY2022 owing to agro-climatic conditions but remained healthy. However, the net recovery rates moderated to 8.63% in SY2023 (PY: 10.59%) owing to the higher diversion of cane towards B-heavy ethanol and juice-based ethanol. Healthy recovery rates over the years have helped reduce the company's cost of production. The gross recovery in SY2024 is expected to remain slightly better compared to the SY2023 levels. Further, the net recovery is expected to improve in the current season, mainly due to the lower diversion of cane towards ethanol after the Government cap on diversion.

Strong capital structure and healthy debt coverage metrics – The company has a comfortable capital structure with a gearing of 0.5 times as on March 31, 2023 (PY: 0.8 times). The coverage indicators continued to be healthy in FY2023 with total debt/OPBIDTA of 1.7 times (PY: 1.8 times), NCA/total debt of 37% (P.Y.: 31%), DSCR of 2.6 times (PY: 3.1 times) and interest cover of 8.3 times (PY: 9.2 times). Going forward, the debt metrics are expected to remain healthy over the medium term, even though the debt levels are expected to increase by March 2024 on account of higher inventory holding. However, the debt metrics remain supported by healthy operating profits and cash accruals.

Credit challenges

Profitability vulnerable to policy interventions by the Government - DSIL's profitability, along with other sugar mills, continues to be vulnerable to the GoUP and the Central Government's policy on cane prices. Thus, the company's performance can be adversely impacted by a disproportionate increase in cane prices in any particular year. Further, the profitability remains vulnerable to the Government's policies on sugar international trade, domestic quota, sugar MSP, remunerative ethanol prices and interest subvention loan for distillery capacity expansion. The continuation of Government support in the form of remunerative ethanol prices and interest subvention for the debt-funded distillery capex is likely to prevent the piling up of cane arrears. However, the UP state-advised price (UP-SAP) was revised upwards by Rs. 20/quintal for SY2024, which could limit the profitability. Nevertheless, firm domestic prices and increased contribution from ethanol supplies are likely to offset this risk to some extent for integrated sugar mills.

Profitability of sugar mills vulnerable to industry cyclicality and agro-climatic risks - Being an agri-commodity, the sugarcane crop is dependent on climatic conditions and is vulnerable to pests and diseases that may not only impact the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. Further, high dependence on a single crop variety may affect the yield and recovery rate. However, DSIL has been exploring other varieties to mitigate this risk to a certain extent. In addition, the cyclicality in sugar production results in a volatility in sugar prices. However, the sharp downfall in sugar prices has been curtailed after the introduction of MSP by the Central Government in June 2018. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice-based ethanol will help curtail the excess supply of sugar, resulting in lower volatility in sugar prices and hence, in the cash flows from the sugar business.

Environmental and Social Risks

Environmental considerations: Sugar entities like DSIL are directly exposed to climate risks, which affect sugarcane production and yield. Further, excessive or deficient rainfall affects cane availability. However, the company's sugar facilities are in UP, having high sugar recovery rates and longer crushing season with adequate availability of cane, thereby mitigating the climatic risks to a certain extent. Nevertheless, the company remains exposed to raw material availability which can be impacted due to red rot and unseasonal and heavy rainfall as was seen in the recent past.

Social considerations: The worldwide societal shift to less sugar-intensive food products, considering the health issues related to high sugar consumption, could structurally reduce the demand for sugar products. However, such changes in consumer behaviour or any other drivers of change are expected to be relatively slow-paced. Therefore, while DSIL remains exposed to the aforementioned social risk, it is not likely to materially affect its credit profile in the medium term, given the increasing sucrose diversion towards ethanol.

Liquidity position: Adequate

DSIL's liquidity position remains adequate, driven by healthy cash flow from operations against the debt obligation. The company has free cash and bank balance of Rs. 147.49 crores as of December 2023 along with cushion available in its working capital limits, with an average utilisation of 10% against the drawing power during the past 12 months. The repayments are expected to remain at Rs. 67.22 crore in FY2025 and Rs. 54.65 crore in FY2026, which can be comfortably met through cash accruals.

Rating sensitivities

Positive factors –An upgrade will be backed by a healthy improvement in the scale of business and profitability coupled with the diversification in revenues, leading to an improvement in the debt coverage metrics while maintaining a strong liquidity position.

Negative factors – ICRA could revise the ratings downwards if there is any sharp decline in revenues and profitability along with a significant decline in the ethanol business that would weaken the debt coverage metrics. A specific metric that may drive an unfavourable rating action could be an interest cover of below 7 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Sugar
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone financial statements

About the company

DSIL, promoted by Mr. Gautam R. Moraraka, was incorporated in 1994 through the establishment of a 2,500-TCD sugar plant in the sugar-rich belt of UP at the Bundki village in the Bijnor district. DSIL operates as an integrated sugar player with a current cane crushing capacity of 21,500 TCD, distillery capacity of 337.5 kilo litres per day (KLPD) and co-generation capacity of 96 mega watt (MW). The operations of the company are spread across three sugar plants, i.e. Dwarikesh Nagar (DN), Dwarikesh Puram (DP) and Dwarikesh Dham (DD).

Key financial indicators (audited)

DSIL Standalone	FY2022	FY2023
Operating income	1978.7	2103.0
PAT	155.2	104.8
OPBDIT/OI	14.7%	10.2%
PAT/OI	7.8%	5.0%
Total outside liabilities/Tangible net worth (times)	1.1	0.7
Total debt/OPBDIT (times)	1.8	1.7
Interest coverage (times)	9.2	8.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022		Date & rating in FY2021
					Feb 28, 2024	Feb 07, 2023	Jun 14, 2022	Dec 29, 2021	Apr 7, 2021	Apr 02, 2020
1	Long-term fund-based – Term loan	Long term	236.53	236.53	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Long-term fund-based- Working capital facilities	Long term	450.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3	Long-term non-fund based - Working capital facilities	Long term	30.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
4	Long term unallocated limits	Long term	83.47	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Positive)	[ICRA]A+ (Positive)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
5	Commercial paper^	Short term	300.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

^carved out of working capital limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based - Working capital facilities	Simple
Long-term non-fund based - Working capital facilities	Very Simple
Long term unallocated limits	NA
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loans**	Nov 2018-Aug 2021	5%-8.65%	Jun 2024-Sep 2028	236.53	**[ICRA]AA- (Stable)**
NA	**Working capital facilities**	-	NA	-	450.00	**[ICRA]AA- (Stable)**
NA	**Non-fund based – Working capital facilities**	-	NA	-	30.00	**[ICRA]AA- (Stable)**
NA	**Unallocated limits**	-	NA	-	83.47	**[ICRA]AA- (Stable)**
Yet to be placed	**Commercial paper^**	-	-	-	300.00	**[ICRA]A1+**

Source: Company; ^carved out of working capital limits

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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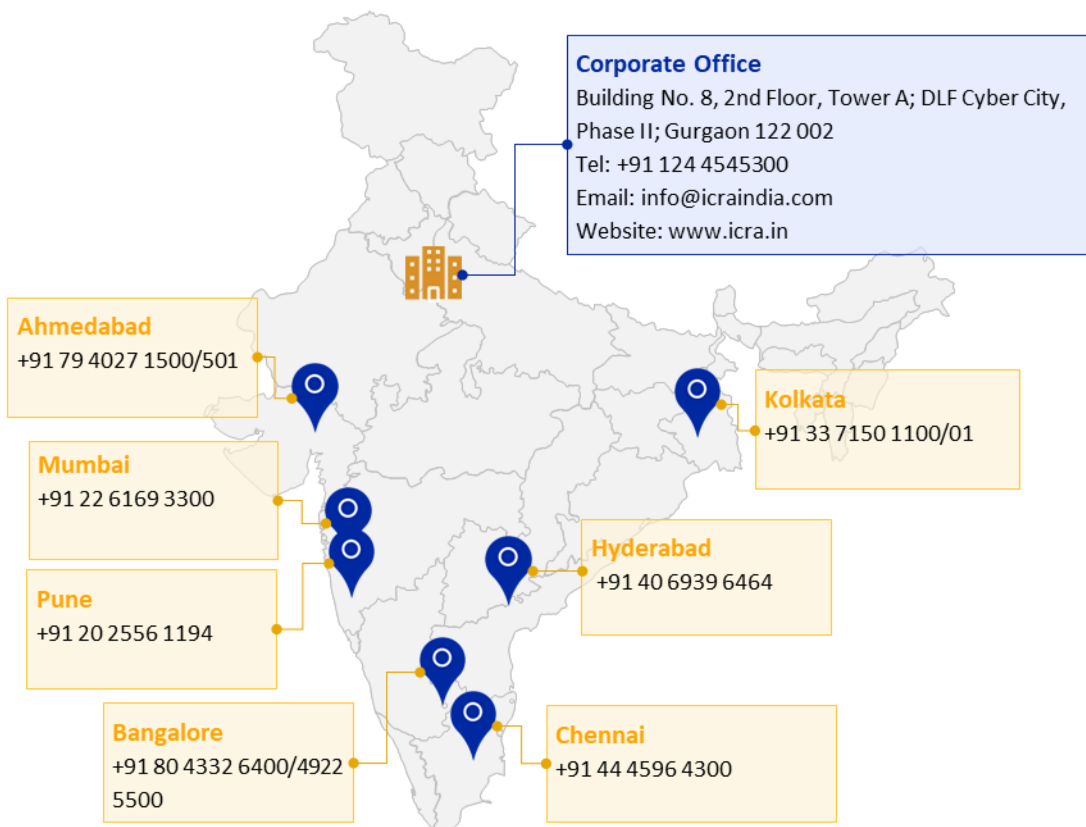

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