November 07, 2024

Dwarikesh Sugar Industries Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Term loan	236.53	236.53	[ICRA]AA- (Negative); reaffirmed and outlook revised to Negative from Stable
Long term – Fund-based – Working capital facilities	450.00	450.00	[ICRA]AA- (Negative); reaffirmed and outlook revised to Negative from Stable
Long term – Non-fund based - Working capital facilities	30.00	30.00	[ICRA]AA- (Negative); reaffirmed and outlook revised to Negative from Stable
Long term – Unallocated limits	83.47	83.47	[ICRA]AA- (Negative); reaffirmed and outlook revised to Negative from Stable
Total	**800.00**	**800.00**	
Commercial Paper**	**300.00**	**300.00**	[ICRA]A1+; reaffirmed

**Instrument details are provided in Annexure-I*

*** CP is carved out of working capital limits*

Rationale

The revision in the outlook to Negative on Dwarikesh Sugar and Industries Limited's (DSIL) long-term rating factors in a significant dip in its revenue and profitability in H1 FY2025 compared to H1 FY2024 on account of lower sugar and ethanol sales. The company reported an OPBDIT[1] loss of Rs. 20.7 crore in H1 FY2025 against an OPBDIT profit of Rs. 105.8 crore in H1 FY2024. The company's SY[2]2024 crushing season was completed in March 2024 compared to the extended operations till May in the earlier sugar years on account of red rot infestation in the command area for all its three units in Uttar Pradesh (UP). The absence of crushing operations in Q1 FY2025 adversely impacted sugar sales in H1 FY2025 and reduced the feedstock available for ethanol. This, coupled with the restrictions imposed on the diversion of sugar towards ethanol in ESY[3]2024, also pulled down the ethanol sales in H1 FY2025.

The revenues and profitability are expected to improve in H2 FY2025 due to resumption of crushing operations from November 2024, supported by the various steps taken by the company to resolve the red rot infestation issue and the removal of cap on sugar diversion for ethanol production by the Government of India for ESY2025. Overall, ICRA expects the performance in FY2025 to remain weaker than the earlier estimates, with a moderation in profitability margins and debt coverage indicators compared to FY2024. The extent of the improvement in revenues and profitability over the coming quarters remains a key monitorable for the company.

The ratings continue to positively factor in DSIL's efficient operations with comfortable recovery rates in the past that have supported its credit profile over the years. Moreover, being forward integrated into co-generation and distillery operations, the company benefits from access to alternative revenue streams, which act as a cushion against the cyclicality of the sugar business. ICRA also notes the comfortable capital structure of the company with a gearing of 0.3 times as on September 30, 2024.

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[1] *Operating profit before depreciation, interest, taxes and amortisation*

[2] *Sugar year*

[3] *Ethanol supply year*

The ratings, however, continue to be 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, sugar international trade, domestic sugar quota, policy related to ethanol blending, sugar and ethanol pricing and interest subvention loan for distillery capacity expansion.

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 94 megawatt (surplus – 54 MW) and distillery capacity of 337.5 kilolitres per day (KLPD) as on September 30, 2024. The integrated operation provides alternative revenues and cushions the profitability against the cyclicality in the sugar business. In H1 FY2025, the sugar and co-generation businesses accounted for around 84% of the company's revenue, while the distillery segment accounted for ~16% (declined from 30% in H1FY2024) of the total revenue. The distillery sales declined YoY in H1 FY2025 in the absence of crushing operations during the first half and the restrictions imposed on the diversion of sugar towards ethanol. The revenue contribution from the distillery division is expected to improve, going forward, supported by the resumption of crushing operations from November 2024 and the removal of cap on sugar diversion for ethanol production in ESY2025.

Operationally-efficient sugar mills with comfortable recovery rates – The company remained operationally efficient over the years which supported its credit profile. However, in SY2024, the cane crushing declined to 26.8 lakh metric tonnes (MT) from 30.3 lakh MT in SY2023 mainly due to red rot infestation. This also affected crushing operations in H1 FY2025 as the crushing season was cut short in March 2024. The company's gross recovery rate for the sugar season slightly moderated to 11.56% in SY2024 from 11.62% in SY2023 owing to the red rot infestation but remained comfortable. However, the net recovery rates remained higher at 9.79% in SY2024 (PY: 8.00%) owing to lower diversion of cane towards B-heavy ethanol and juice-based ethanol. Comfortable recovery rates over the years have helped reduce the company's cost of production. The gross recovery in SY2025 is expected to remain slightly better than the SY2024 levels. Further, the net recovery is expected to decline in the current season, mainly due to the higher diversion of cane towards ethanol after removal of cap on diversion.

Credit challenges

Operating margins and debt coverage indicators expected to moderate in FY2025 – The company's SY2024 crushing season got over in March 2024 on account of red rot infestation across all its three units in UP. The absence of crushing operations in Q1 FY2025 adversely impacted sugar sales in H1 FY2025. This, coupled with the restrictions imposed on the diversion of sugar towards ethanol in ESY2024, also brought down ethanol sales in H1 FY2025. The revenues and profitability are expected to improve in H2 FY2025 with the resumption of crushing operations from November 2024, supported by the various steps taken by the company to resolve the red rot infestation issue and the removal of cap on sugar diversion for ethanol production in ESY2025. Overall, ICRA expects the performance in FY2025 to remain weaker than the earlier estimates, with a moderation in profitability margins and debt coverage indicators compared to FY2024. The extent of the improvement in revenues and profitability over the coming quarters remains a key monitorable for the company.

Profitability vulnerable to policy interventions by the Government - DSIL's profitability, along with that of the 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, diversion towards ethanol 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 an expected increase in 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 as was seen in SY2024 when the sugarcane crop was impacted by red rot for all the UP-based sugar mills. These factors can have a significant impact on the company's profitability, as can been seen from the company's H1 FY2025 performance. Further, high dependence on a single crop variety may affect the yield and the 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, the cash flows from the sugar business.

Liquidity position: Adequate

DSIL's liquidity position remains adequate with free cash and bank balance of Rs. 216.2 crore as on September 30, 2024 and the cushion available from working capital limits. This is against a debt repayment of ~Rs. 67 crore in FY2025 and ~Rs. 55 crore in FY2026. ICRA expects DSIL to comfortably meet its debt repayment obligations in the medium term, supported by the available liquidity and adequate cash flows from operations.

Rating sensitivities

Positive factors – An upgrade over the near term is unlikely. However, the outlook could be revised to Stable if the company is able to show a healthy growth in its earnings and diversify its revenues that would help improve the debt coverage metrics, while maintaining a comfortable 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 for an unfavourable rating action could be an interest cover of below 7 times on a sustained basis.

Environmental and Social Risks

Environmental considerations - Sugar entities like DSIL are directly exposed to climate risks, which affect sugarcane production and yield as was seen in SY2024. Further, excessive or deficient rainfall affects cane availability. However, the company's sugar facilities are in UP, where high sugar recovery rates, a long crushing season and adequate cane availability mitigate the climatic risks to a certain extent. Nevertheless, the company remains exposed to raw material availability which can be impacted by the red rot disease 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.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Sugar
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company

About the company

DSIL, promoted by Mr. Gautam R. Moraraka, was incorporated in 1994 with the establishment of a 2,500-TCD sugar plant in the sugar-rich belt of UP at Bundki village in the Bijnor district. DSIL operates as an integrated sugar player with a current cane crushing capacity of 21,500 TCD, a distillery capacity of 337.5 kilo litres per day (KLPD) and a co-generation capacity of 94 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) in Uttar Pradesh.

Key financial indicators (audited)

Standalone	FY2023	FY2024	H1 FY2025*
Operating income	2103.0	1709.6	587.3
PAT	104.7	83.5	-33.7
OPBDIT/OI	10.2%	12.0%	-3.5%
PAT/OI	5.0%	4.9%	-5.7%
Total outside liabilities/Tangible net worth (times)	0.7	0.7	0.4
Total debt/OPBDIT (times)	1.7	2.2	-5.4
Interest coverage (times)	8.3	10.2	-2.5

*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; *unaudited financials*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)				Chronology of rating history for the past 3 years					
			FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	236.53	Nov 07, 2024	[ICRA]AA-(Negative)	Feb 28, 2024	[ICRA]AA-(Stable)	Jun 14, 2022	[ICRA]A+(Positive)	Apr 7, 2021	[ICRA]A+(Stable)
							Feb 07, 2023	[ICRA]AA-(Stable)	Dec 29, 2021	[ICRA]A+(Positive)
Working capital facilities	Long term	450.00	Nov 07, 2024	[ICRA]AA-(Negative)	Feb 28, 2024	[ICRA]AA-(Stable)	Jun 14, 2022	[ICRA]A+(Positive)	Apr 7, 2021	[ICRA]A+(Stable)
							Feb 07, 2023	[ICRA]AA-(Stable)	Dec 29, 2021	[ICRA]A+(Positive)
Non-fund based - Working capital facilities	Long term	30.00	Nov 07, 2024	[ICRA]AA-(Negative)	Feb 28, 2024	[ICRA]AA-(Stable)	Jun 14, 2022	[ICRA]A+(Positive)	Apr 7, 2021	[ICRA]A+(Stable)

							Feb 07, 2023	[ICRA]AA- (Stable)	Dec 29, 2021	[ICRA]A+ (Positive)
Unallocated limits	Long term	83.47	Nov 07, 2024	[ICRA]AA- (Negative)	Feb 28, 2024	[ICRA]AA- (Stable)	Jun 14, 2022	[ICRA]A+ (Positive)	Apr 7, 2021	[ICRA]A+ (Stable)
							Feb 07, 2023	[ICRA]AA- (Stable)	Dec 29, 2021	[ICRA]A+ (Positive)
Commercial paper	Short term	300.00	Nov 07, 2024	[ICRA]A1+	Feb 28, 2024	[ICRA]A1+	Jun 14, 2022	[ICRA]A1+	Apr 7, 2021	[ICRA]A1+
							Feb 07, 2023	[ICRA]A1+	Dec 29, 2021	[ICRA]A1+

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	Not Applicable
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	Long term – Fund-based – Term loan	Nov 2018-Aug 2021	5%-8.65%	Jun 2024-Sep 2028	236.53	[ICRA]AA- (Negative)
NA	Long term – Fund-based – Working capital facilities	NA	NA	NA	450.00	[ICRA]AA- (Negative)
NA	Long term – Non-fund based - Working capital facilities	NA	NA	NA	30.00	[ICRA]AA- (Negative)
NA	Long term – Unallocated limits	NA	NA	NA	83.47	[ICRA]AA- (Negative)
Yet to be placed	Commercial paper	NA	NA	NA	300.00	[ICRA]A1+

Source: Company

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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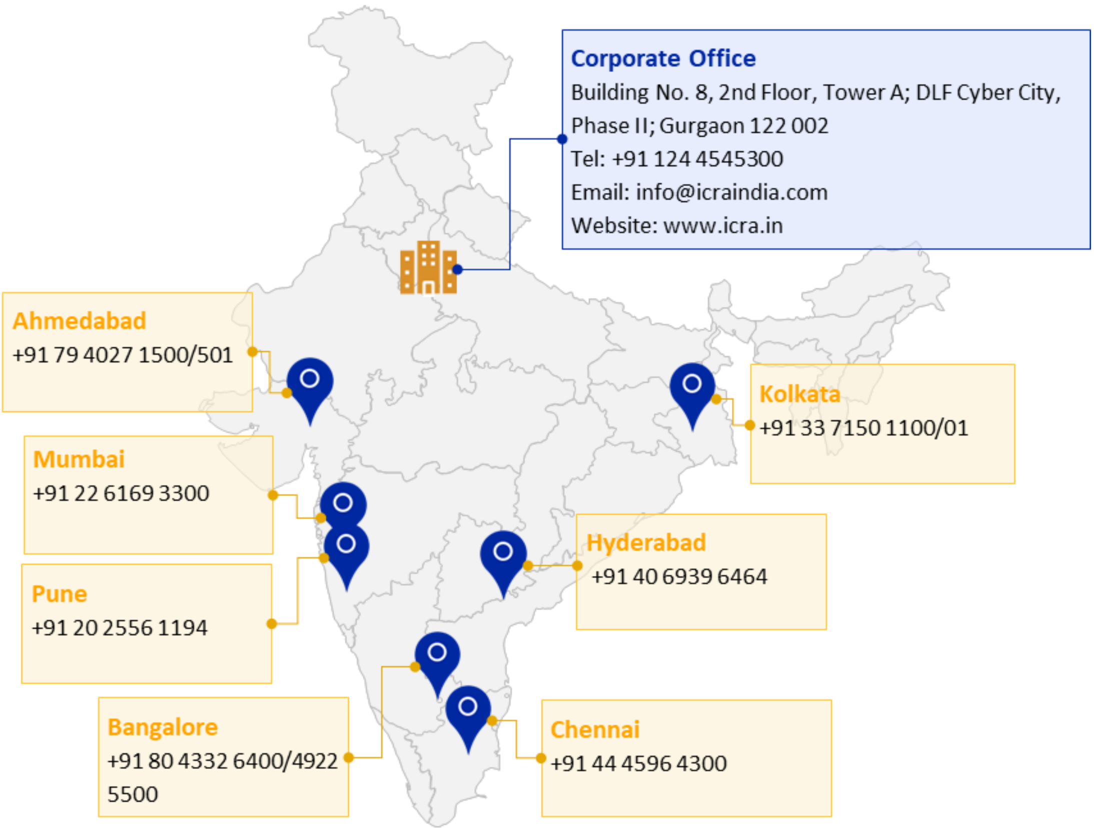

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