India Ratings & Research
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India Ratings Upgrades Shree Renuka Sugars and its NCDs to 'IND A-'/Positive; Off RWP

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India Ratings and Research (Ind-Ra) has upgraded Shree Renuka Sugars Limited's (SRSL) Long-Term Issuer Rating to 'IND A-' from 'IND BBB+' while resolving the Rating Watch Positive (RWP). The Outlook is Positive. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term Loan			FY27	INR5,480 (reduced from INR13,321)	IND A-/Positive	Upgraded; off RWP
Short term loan				INR4,000	IND A1	Upgraded; off RWP
Fund based Limit				INR1810	WD	Withdrawn (paid in full)
Non-fund-based Limit				INR11,242	WD	Withdrawn (paid in full)
Working capital limit				INR7400	IND A-/Positive/IND A1	Assigned
Non-convertible debentures (NCDs)^				INR2,188 (reduced from INR7,821)	IND A-/Positive	Upgraded; off RWP
Proposed working capital limit#				INR400	IND A-/Positive/IND A1	Assigned

^Details in annexure
#Unallocated

ANALYTICAL APPROACH: Ind-Ra continues to factor in SRSL's strong legal, operational and strategic linkages with its ultimate parent, Wilmar International Limited (Wilmar), and the continued strong support that it receives from Wilmar to arrive at the ratings.

The upgrade and RWP resolution reflect the company's improved financial flexibility after the prepayment of its entire debt that had been classified as a non-performing asset (NPA) and an improvement in its standalone performance. The Positive Outlook reflects the likelihood of SRSL's financial profile sustaining at stronger than previously expected levels in FY22. In FY21, the company's performance significantly outperformed Ind-Ra's expectations, and despite a likely yoy moderation, SRSL's performance over the next couple of years is likely to remain better than previously expected.

KEY RATING DRIVERS

Prepayment of NPA Classified-Debt Enhances Financial Flexibility: SRSL completed the prepayment of its entire restructured debt in 4QFY21 through the funds infused by its parent, Wilmar Sugar Holdings Pte. Ltd (WSH; end-June 2021: 62.5% stake in SRSL; end-June 2020: 58.34% stake) in the form of external commercial borrowings of USD300 million (INR21.6 billion) and equity of INR1.85 billion. Although SRSL had been servicing all its debt obligations on due dates since the restructuring in March 2018, the entire restructured debt had been reclassified as a non-performing asset in 2019 after a communication to its lenders from the Reserve Bank of India (RBI) on the issue of the change in the ownership considered in the resolution plan.

The prepayment exercise reduced SRSL's external debt to INR16.3 billion at FYE21 (FYE20: INR21.9 billion), and its external term debt to INR5.1 billion (INR18.2 billion). Besides, the removal of the NPA classification has improved its access to the Indian banking system as, enhancing its financial flexibility.

Strong Support Demonstration from Parent: In addition to the infusion of external commercial borrowings and equity, Wilmar has continued to provide tangible support to SRSL in the form of trade advances and extended credit periods for raw sugar purchase (total outstanding dues at FYE21: INR20.8 billion, FYE20: INR26.4 billion, FYE19: INR15.6 billion), indicating its strong ability and willingness to support the latter. As a result, SRSL's external debt declined to 43% of the total debt outstanding at FYE21 (FYE20: 100%). Furthermore, the management of Wilmar has communicated to Ind-Ra its continued willingness to provide support to SRSL.

Wilmar is a leading branded consumer pack oils, specialty fats and oleochemicals producer and edible oils refiner in the world. It is also a leading producer of consumer pack edible oils and a leading sugar miller and refiner in India, with over 500 manufacturing plants and an extensive distribution network covering over 50 countries. Wilmar's revenue grew 18.5% yoy to USD50.5 billion in 2020, with the operating margins remaining stable at 7.1%. While its net debt remained high (2020: USD13.6 billion, 2019: USD13.2 billion), about three-fourth of the same was in the form of working capital borrowings. The proforma net leverage (net debt/EBITDA) improved to 3.8x in 2020 (2019: 4.4x), while the net interest coverage (EBITDA/net interest expense) increased to 15.6x (7.3x). It had available liquidity of USD20 billion (cash, trade finance and committed undrawn lines) at end-March 2021. Wilmar's financial flexibility is further strengthened by its promoter, the Kuok group, a large corporate group of Asia, and by its strategic stakeholder, Archer Daniels Midland (Fitch Ratings Ltd - Issuer Default Rating 'A'/Stable), one of the largest agro-commodity companies in the world.

Strong Linkages with Parent: The legal linkages between SRSL and Wilmar are underpinned by the corporate guarantee extended by Wilmar towards 87% of SRSL's external debt outstanding at FYE21. While the guarantees are post-default in nature, Ind-Ra, based on its discussions with Wilmar's management, believes that Wilmar would continue to provide support to SRSL for the timely servicing of debt obligations.

The operational ties between the entities are driven by the overlap in SRSL and Wilmar's businesses, as sugar is one of the three key business segments of Wilmar, with tropical oils and grains being the other two, with a total sugar milling capacity of 28 million tonnes (mnt) and refining capacity of 4mnt, spread across six countries. SRSL accounts for around 20% of Wilmar's total sugar capacity. SRSL procures most of its raw sugar requirement for the refining business, which accounts for60%-65% of its revenue, from Wilmar at competitive prices and credit terms.

Furthermore, Wilmar has full management control of SRSL, with the latter's board including Wilmar's chairman, group chief financial officer and its group sugar head. Strategic linkages also emanate from the fact that Wilmar remains focussed on the sugar sector, with a view to widen its consumer products portfolio and increase its wallet share in the populated markets. The acquisition of stake in SRSL has given Wilmar a leading presence in India, which is the world's largest consumer and second-largest producer of sugar, and therefore, a key market; moreover, the country also offers growth opportunities in the ethanol segment. With the infusion in FY21, Wilmar's total investment in SRSL increased to INR63 billion (FY20: INR45 billion, FY18: INR28 billion). Apart from this, it has extended corporate guarantees to the tune of around INR14 billion, taking the total exposure to over USD1 billion, indicating the latter's strategic importance.

Significant Improvement in Standalone Performance in FY21; Likely to Remain Comfortable in FY22 despite Moderation: SRSL witnessed a very strong performance in FY21, with the EBITDA rising to INR5.8 billion (FY20: INR0.1 billion), significantly outperforming Ind-Ra's expectations, mainly driven by the refinery segment. The refinery segment's EBITDA rose sharply to INR3.4 billion in FY21 (FY20: INR0.7 billion, FY19: INR1.9 billion) due to a rise in the benchmark refining spreads, which averaged around USD95/metric tonnes (mt) in FY21 (FY20: USD62/mt), coupled with volume growth of 15% yoy to 1.24mnt. Milling performance continued to improve in FY21, with the EBITDA rising to INR0.8 billion (FY20: INR0.5 billion) on the back of the increase in sugar prices and higher sales of branded sugar (up 35% yoy). With an increase in cane output, commencement of the distillery expansion in 3QFY20, and diversion of cane directly to ethanol, distillery volumes increased 35% yoy to 120 million litres in FY21. With cane availability likely to remain robust, Ind-Ra expects the segment's profitability to increase gradually.

In 1QFY22, refinery revenue fell 52% yoy to INR3.7 billion and the segment reported EBIT losses of INR0.4 billion (1QFY21: profit of INR0.7 billion), as a shortage of containers adversely affected exports and also because of decline in refining spreads to about USD80/mt from USD100/mt and an increase in ocean freight. Consequently, the company incurred an EBITDA loss of INR0.9 billion in 1QFY22 (1QFY21: profit of INR1.3 billion). With the container availability improving subsequently, Ind-Ra expects the refining segment's profitability to return in 2QFY22. Therefore, despite a likely moderation, Ind-Ra expects SRSL's EBITDA to remain robust in FY22. Furthermore, the planned merger of SRSL's subsidiary Gokak Sugars Limited with the former (awaiting regulatory approvals) is unlikely to materially impact the credit profile.

Credit Metrics Improve Substantially in FY21; Qualified Institutional Placement (QIP) Planned: The company's net leverage (net debt excluding debt from parent/EBITDA) improved to 2.9x in FY21 (FY20: not meaningful due to the low EBITDA). While the normalisation in profits is likely to cause a moderation in net leverage in FY22, it would remain comfortable. The interest coverage (EBITDA/ interest on external debt) improved to 2.5x in FY21 (FY20: 0.1x) and is likely to stay at similar levels in FY22. The working capital-adjusted net leverage turned negative in FY21 and is likely to remain negative in the near term. Ind-Ra has adjusted the credit metrics for parent debt/advances, given the flexibility on servicing the same. The overall interest coverage stood at 1.6x in FY21 and is likely to remain around 1x in the near term. The total net adjusted leverage improved to 6.6x in FY21 and is likely to increase in FY22 due to lower EBITDA. SRSL has received an approval from its board of directors for a QIP of up to INR15 billion to fund its future growth opportunities, capex for ongoing and new projects, working capital requirements and other general corporate purpose. A successful issuance could significantly bolster SRSL's credit metrics and liquidity.

Leading Sugar Manufacturer in India; Distillery Expansion Bodes Well for Medium-Term Profitability: SRSL has the fifth largest sugar manufacturing capacity in India. It is also a leading supplier of ethanol to oil marketing companies and is among the few companies in India to have a sizeable cane juice-to-ethanol facility, due to which its integration is among the best in the industry. SRSL has an operating track record of over 25 years in the sugar business and is geographically diversified, with a presence in Karnataka and Maharashtra. Besides, the company is also the leading sugar refiner in the country. SRSL's Madhur is the leading sugar brand in the country, with a share of 30%-35% in the branded sugar market, according to the management. Its share in domestic sale volumes increased to 46% in FY21 (FY20: 35%), aiding profitability.

SRSL plans to expand its distillery capacity to 1,400 kilo litres per day (klpd) (FY21: 720klpd) by October 2022, which will not only provide stability to profits but also help in reducing sugar stocks. The total cost of expansion is likely to be around INR7 billion, expensed over FY22-FY23. The company had undrawn sanction of INR2.4 billion for capacity expansion and the balance could be funded through QIP. The increase in the distillery capacity bodes well from a medium-term perspective, given the government's focus on the ethanol blending program and the need to reduce sugar production in the country.

Liquidity Indicator - Adequate: SRSL's high financial flexibility is driven by the presence of a strong parent that has been constantly infusing funds to support its repayment obligations as well as its working capital requirement. Furthermore, with a reduction in external borrowings and increase in EBITDA, SRSL is likely to generate sufficient cash flows to meet its external debt obligations in the near-term. The average utilisation of its fund-based working capital limit was 90% in the past 7 months ended July 2021. The company tied up fresh debt of INR12.8 billion (including working capital lines of INR7.4 billion) during FY21-1QFY22.

Susceptibility to Currency Fluctuations: While SRSL has a natural hedge for its refining business, there is a significant timing mismatch, as the raw sugar procurement largely takes place through Wilmar at extended credit periods while receivables do not exceed 1-1.5 months. SRSL registered a forex gain of INR0.7 billion in FY21, after having incurred a loss of INR1.5 billion in FY20 (including mark-to-market gains/losses on payables and advances from Wilmar). The forex policy is aligned to that of the parent.

Industry on the Brink of a Structural Shift: The government of India has taken a slew of measures in the past couple of years that have changed the dynamics of the sugar industry. The introduction of minimum selling price of sugar in 2018 addressed the key issue of fixed raw material price and market-linked finished product price, making spreads less volatile to sugar cycles. Furthermore, the export subsidy helped the industry achieve the highest-ever exports of 5.7mnt in SS 2019-20; the exports are likely to increase to a new record of more than 6mnt in SS2020-21.

From a long-term perspective, the government has been encouraging ethanol production through an increase in prices and the providing of soft loans for expansion. The demand for ethanol from oil marketing companies increased by close to 3x over FY14-FY21, with the ethanol blending rate reaching 7.5% in SS2020-21 from 1%-1.5% in 2014. Furthermore, the government has advanced the timeline for 20% ethanol blending in petrol to 2025 from the earlier target of 2030 and prepared a roadmap for the same. The segment will provide better visibility and stability to the cash flows of sugar companies.

RATING SENSITIVITIES

Positive: Healthy operating performance with an improvement in the profitability mix, leading to the net leverage (on external debt) sustaining below 3.5x and the interest coverage (on external debt) exceeding 2.5x could lead to a positive rating action.

Negative: Weaker-than-expected performance, leading to the net leverage (on external debt) exceeding 3.5x and the interest coverage (on external debt) falling below 2.5x, both on a sustained basis, post FY22 will lead to the Outlook being revised to Stable. Additionally, any weakening of linkages and/or support from Wilmar will lead to a negative rating action.

COMPANY PROFILE

SRSL is one of the leading sugar manufacturers in India with a track record of over 25 years. Its operations are integrated, encompassing crushing of cane, refining of raw sugar, ethanol production and power generation.

FINANCIAL SUMMARY

Particulars	FY21	FY20
Net revenue (INR billion)	55.4	45.7
EBITDA margin (%)	10.5	0.3
External EBITDA interest coverage (x)	2.5	0.1
External net leverage (x)	2.8	NM
Source: SRSL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Positive			Historical Rating/Rating Watch/Outlook		
	Rating Type	Rated Limits (million)	Rating	20 August 2020	21 August 2019	24 September 2018
Issuer rating	Long-term	-	IND A-/Positive	IND BBB+/RWP	IND BBB+/RWN	IND BBB+/Stable
NCDs	Long-term	INR2,188	IND A-/Positive	IND BBB+/RWP	IND BBB+/RWN	IND BBB+/Stable
Term loan	Long-term	INR5,480	IND A-/Positive	IND BBB+/RWP	IND BBB+/RWN	-
Fund-based limit	Long-term	INR1,810	WD	IND BBB+/RWP	IND BBB+/RWN	-

Working Capital Limit	Long-term/Short-term	INR 7,800	IND A-/Positive/IND A1	-	-	
Short-term loan	Short-term	INR4,000	IND A1	IND A2+/RWP	IND A2+/RWN	-
Non-fund-based limit	Short-term	INR11,242	WD	IND A2+/RWP	IND A2+/RWN	-

ANNEXURE

Instrument Type	**ISIN**	**Date of Issuance**	**Coupon Rate (%)**	**Maturity Date**	**Size of Issue (million)**	**Rating/Outlook**
NCDs	INE087H07060	3April 2012	11.7	31 March 2024	INR1313	IND A-/Positive
NCDs	INE087H07078	24 December 2012	11.3	31 March 2024	INR875	IND A-/Positive
NCDs	INE087H07086	9 March 2018	0.01	31 March 2027	INR5,521	WD; paid in full
Total NCDs					**INR2,188**	

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loans	Low
NCDs	Low
Working Capital limits	Low
Fund-based limits	Low
Non-fund based limits	Low

For details on the complexity levels of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Parent and Subsidiary Rating Linkage
Short-Term Ratings Criteria for Non-Financial Corporates

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