August 08, 2017

Shree Renuka Sugars Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Term Loans	3679.30	[ICRA]D reaffirmed
Fund Based Limits	1218.00	[ICRA]D reaffirmed
Non-Fund Based Limits	1616.17	[ICRA]D reaffirmed
Total	**6513.47**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating of [ICRA]D (pronounced ICRA D) on the long-term and the short-term scale outstanding on the Rs. 6,513.47 crore bank limits of Shree Renuka Sugars Limited (SRSL)[1].

Rationale

The reaffirmation of the rating takes into account the on-going delays in debt servicing by the company owing to its stretched liquidity position arising from inadequate accruals from core operations and high debt repayment obligations. The rating continues to remain impacted by the weak consolidated financial profile of the company as poor weather conditions in Brazil and increased liabilities on USD-denominated loans due to depreciation of the Brazilian currency have affected the company's plans of turning around its Brazilian subsidiaries in the sugar business. While loans for Renuka Vale do Ivai has been restructured with lower interest rates and longer repayment tenure, the management is currently in discussions with the lenders for a one-time settlement with a significant haircut for Renuka do Brasil. The rating also takes into account the risks arising out of the inherent cyclicality in sugar business, exposure to agro-climatic risks and vulnerability to regulatory policies, apart from the exposure to price fluctuations for the company's trading business. The company has seen a sharp decline in its domestic sugarcane crushing volumes due to lower availability of sugarcane in the surrounding areas which has also affected the operations of the co-generation and distillery operations. ICRA has also taken note of the sizeable amount of corporate guarantees extended by SRSL to its subsidiaries.

ICRA, however, positively notes the company's complete forward integration into distillery and co-generation operations and advantage of being located in Maharashtra and Karnataka states that are regions with high recovery rates, long crushing season and relatively flexible Fair & Remunerative Price (FRP) based cane price regime.

SRSL has recently announced additional equity infusion by Wilmar Group (which has a 27% stake in SRSL currently) of Rs. 784 crore in the form of 0.01% compulsorily convertible preference shares subject to successful completion of a debt restructuring package and other requirements. As part of the proposed restructuring process, the existing lenders will also be converting part of the debt into fresh equity capital as well as convertible securities. This apart, the equity contribution from the Wilmar Group will be entirely used for debt repayments. The timeliness and the progress of the debt restructuring package remains a key monitorable from the credit perspective.

[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

- **Fully forward integrated into distillery and co-generation operations resulting in substantial de-risking of core sugar business**- The company is forward integrated into distillery and co-generation operations that de-risks the core sugar business of the company and supports its profitability during periods of sugar cyclicality. During the last few years, while performance of sugar business has remained subdued, the distillery business has performed satisfactorily with PBIT margins of 24-25%.

- **Location of plants close to port and substantial in-house refinery capacity enabling it to export sugar when international markets are lucrative and import in periods of domestic shortage-** The company's refining units also enjoy locational advantages being situated close to the ports, since bulk of the raw material is imported, while a significant portion of the refined sugar is exported to foreign markets. Since the company procures the raw sugar from international markets against favourable LC terms, it operates on a negative working capital cycle which reduces the interest burden.

- **Firm sugar realisations have supported improvement in contribution levels from the sugar business-** Sugar realisations have seen sharp improvement over the past twelve to fifteen months on the back of lower sugarcane availability and healthy sugar demand. The prices have increased from ~ Rs. 21-22/ kg in June 2015 to almost Rs. 35-36/ kg in June 2017. This has led to improvement in the segmental performance with PBIT of Rs. 137.6 crore in FY2017 as against losses at PBIT[2] level of Rs. 119.3 crore in FY2016.

Credit weaknesses

- **Financial profile continues to remain stretched-** The company's cash flow position has continued to remain weak owing to the subdued profitability levels. High leveraging levels have led to high interest expenses which continued to result in net losses for the company during FY2017.

- **Operations exposed to agro-climatic risks and cyclical trends in sugar business-** The operations of the company remains exposed to the agro-climatic and cyclical risks associated with sugarcane production. During FY2017, the crushing volumes were significantly impacted owing to lower availability of sugarcane in Maharashtra and Karnataka due to weak monsoon scenario.

- **Vulnerability to government/regulatory policies-** The sugar industry is highly regulated, with various Government Acts governing virtually all aspects of the business, which include the availability and pricing of sugarcane, sugar trade and by-product pricing.

- **Exposure of the company's trading business to market risks, especially price fluctuations-** The company is also engaged in trading of raw sugar, white sugar and certain distillery products and remains exposed to price fluctuations.

- **Planned turnaround for Brazilian subsidiaries has not yet materialised owing to poor weather conditions in Brazil and increased liabilities on USD loans due to depreciation of Brazilian Real-** Subsequent to the acquisition of the Brazilian entities, poor weather conditions in Sao Paulo affected the performance, delaying the planned turnaround of the entity. While the sugarcane crushing

[2] Profit before interest and tax

volumes gradually improved later, the financials of the Brazilian subsidiaries remained weak due to subdued global sugar prices and increased US Dollar denominated debt liabilities following the sharp depreciation of Brazilian Real against the US Dollar. While loans for Renuka Vale do Ivai has been restructured with lower interest rates and a longer repayment tenure, the management is currently in discussions with the lenders for a one time settlement with a significant haircut for Renuka do Brasil.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Ratings: A Note on Methodology
Rating Methodology for Entities in the Sugar Industry

About the company

Shree Renuka Sugars Limited (SRSL) is one of the largest private sector sugar manufacturers in the country, promoted by first generation entrepreneurs, viz. Murkumbi family, with a combined crushing capacity of about 42,000 TCD (across seven units) in India and 59,520 TCD (across four units) in Brazil. The plants in India are located in the states of Maharashtra and Karnataka. The company has significant presence in South Brazil through acquisitions of Renuka Vale do Ivai in March 2010 (100% owned) and Renuka do Brasil (formerly Euipav Acucar e Alcohol) in July 2010 (50.34% stake, which was increased to 59.4%3 by March 2012).

SRSL has been one of the first mills to be fully forward integrated into distillery (using molasses, a by-product of sugar) and co-generation (based on bagasse) operations. SRSL mainly manufactures fuel grade ethanol that can be blended with petrol. Global distillery capacity of SRSL is 4,160 KL per day (KLPD) with Indian distillery capacity at 930 KLPD (630 KLPD from molasses to ethanol and 300 KLPD from rectified spirit to ethanol) and Brazil distillery capacity at 3,230 KLPD. The company has a total co-generation capacity of 584 MW with a total exportable surplus of 356 MW. The company also carries out refining activity, i.e. conversion of raw sugar to white sugar, from its 2,500 TPD unit at Haldia (West Bengal) and 3,000 TPD unit at Kandla (Gujarat).

Renuka Vale do Ivai was previously a distressed Brazilian sugar and ethanol producer with a total crushing capacity of 3.1 million MT per annum and it has strategic stake in warehouses and loading facilities at Paranagua port in Brazil. Renuka do Brasil has sugar/ethanol mills with integrated co-generation facilities. It has about 10.5 million MT annual crushing capacity along with co-generation capacity of 295 MW.

[3] includes equity infusion of USD 60 million by Renuka Commodities DMCC as well

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	5864.1	7771.6
PAT (Rs. crore)	-285.3	-123.9
OPBDIT/ OI (%)	2.4%	3.9%
RoCE (%)	-2.0%	3.5%
Total Debt/ TNW (times)	2.8	3.5
Total Debt/ OPBDIT (times)	24.6	12.1
Interest coverage (times)	0.4	0.8
NWC/ OI (%)	-0.6%	2.5%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years

Table

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016			Month- year & Rating in FY2015
				August 2017	March 2016	August 2015	July 2015	December 2014
1	Term Loans	Long Term	3679.30	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]A- (Negative)
2	Fund Based Limits	Long Term	1218.00	[ICRA]D	[ICRA]D	[ICRA]BB (Negative)	[ICRA]BBB- (Negative)	[ICRA]A- (Negative)
3	Non-Fund Based Limits	Short Term	1616.17	[ICRA]D	[ICRA]D	[ICRA]A4	[ICRA]A3	[ICRA]A2+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1

Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loans	-	10-12%	FY 2027	3679.30	[ICRA]D
Fund Based Limits	-	-	-	1218.00	[ICRA]D
Non-Fund Based Limits	-	-	-	1616.17	[ICRA]D

Source: Shree Renuka Sugars Limited

Contact Details

Analyst Contacts

Sabyasachi Majumdar
+91 124 4545 304
sabyasachi@icraindia.com

Aditya Jhaver
+91 22 6169 3379
aditya.jhaver@icraindia.com

Abhishek Dafria
+91 22 6169 3344
abhishek.dafria@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Relationship Contact

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

About ICRA Limited:
ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.
Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.
For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata
Mr. Jayanta Roy
Mobile: **+91 9903394664**
Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231

Pune
Mr. L. Shivakumar
Mobile: +**91 9821086490**
Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231

Hyderabad
Mr. Jayanta Chatterjee
Mobile: +**91 9845022459**
Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500