SHREE RENUKA SUGARS

18th August 2023

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Bandra Kurla Complex
Bandra (East), Mumbai – 400 051

NSE Symbol: **RENUKA**

Dept. of Corporate Service
BSE Limited
P. J. Towers, Dalal Street
Mumbai – 400 001

BSE Scrip Code: **532670**

Sub: Credit Rating intimation under Regulation 30 of SEBI (LODR) Regulations, 2015

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we wish to inform you that India Ratings & Research has upgraded/reaffirmed/assigned the rating of bank facilities availed by the Company and Non-Convertible Debentures issued/to be issued by the Company. The instrument-wise rating actions are as follows:

Instrument Type	Size of Issue (Rs. in million)	Rating/Outlook	Rating Action
Fund-based /Non- fund-based working capital limits	7,800	IND A/ Stable/IND A1	Long-term rating upgraded; Short-term rating affirmed
Non-convertible debentures (NCDs)	2,009 (reduced from 2,088)	IND A/Stable	Upgraded
Proposed NCDs *	2,850	IND A/Stable	Assigned
Short-term loans	4,000	IND A1	Affirmed
Term loan	6,265 (reduced from 8,300)	IND A/Stable	Upgraded

** Subject to requisite approvals being obtained by the Company.*

The rating documents issued by India Rating & Research are enclosed.

You are requested to take the above information on your record.

Thanking you,

Yours faithfully,
For **Shree Renuka Sugars Limited**

DEEPAK MADHAV MANERIKAR

Digitally signed by DEEPAK MADHAV MANERIKAR
Date: 2023.08.18 10:32:23 +05'30'

Deepak Manerikar
Company Secretary

India Ratings & Research
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India Ratings Upgrades Shree Renuka Sugars and its NCDs to 'IND A'/Stable

Aug 17, 2023 | Sugar

India Ratings and Research (Ind-Ra) has upgraded Shree Renuka Sugars Limited's (SRSL) Long-Term Issuer Rating to 'IND A' from 'IND A-'. The Outlook is Stable. The instrument-wise rating actions listed are as follows:

Instrument Type	Coupon Rate	Date Of Issuance	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based /Non-fund-based working capital limits	-	-	-	INR7,800	IND A/Stable/IND A1	Long-term rating upgraded; Short-term rating affirmed
Non-convertible debentures (NCDs)*	-	-	-	INR2,009 (reduced from INR2,088)	IND A/Stable	Upgraded
Proposed NCDs*	-	-	-	INR2,850	IND A/Stable	Assigned
Short-term loans	-	-	-	INR4,000	IND A1	Affirmed
Term loan	-	-	31/03/2027	INR6,265 (reduced from INR8,300)	IND A/Stable	Upgraded

*Details in Annexure

ANALYTICAL APPROACH: Ind-Ra continues to factor in SRSL's strong operational, strategic and legal linkages with its ultimate parent, Wilmar International Limited (Wilmar), and the continued strong support that it receives from Wilmar, to arrive at the ratings. Furthermore, the agency continues to take a standalone approach while factoring in the modest impact from the proposed merger of four of SRSL's subsidiaries (Gokak Sugars Limited, Monica Trading Private Limited, Shree Renuka Agri Ventures Limited and Shree Renuka Tunaport Private Limited).

The upgrade reflects the improvement in SRSL's business and financial profile in FY23, led by an improvement in the profitability and successful commencement of expanded distillery operations.

Key Rating Drivers

Distillery Expansion Strengthens Business Profile: SRSL completed the expansion of its distillery capacity to 1,250 kilo litres per day (klpd) in 4QFY23 (FY22: 720klpd), making it the largest molasses-based ethanol capacity in India. The expansion has not only increased the company's scale of operations but it would also provide more stability to the company's profits, given the visibility of ethanol demand and pricing over the near-to-medium term. Besides, given the diversion of cane towards ethanol, the expansion will help SRSL in better management of sugar stocks, thus improving its business and financial profile. The distillery segment's revenue is likely to increase to around INR16 billion by FY25 from levels of around INR9.5 billion in FY22 (INR14.1 billion in FY23), and it is likely to contribute nearly half to the company's EBITDA, in addition to aiding a reduction in stock levels.

While India's sugar production has witnessed a structural increase over the past decade, annual demand growth remains modest at 1%-2%, exceeding the consumption. To manage the inventory levels and reduce the country's oil import bill, the government advanced the timeline for 20% ethanol blending in petrol to 2025 from the earlier target of 2030. Given the current blending rate of about 12%, the target presents a large demand potential, and the government has been incentivising the segment by increasing prices and offering subsidised loans.

Significant Improvement in EBITDA in FY23; Distillery EBITDA to Increase: SRSL's EBITDA grew to INR5.7 billion in FY23 (FY22: INR3.8 billion), as sugar margins (primarily refinery operations) recovered from the impact of the headwinds the company had faced in FY22, resulting in EBITDA/Metric Ton (mt) of INR2,640 (FY22: INR1,789/mt). International refining spreads hit a multi-year high of USD170/mt in August 2023 (FY23: USD130/mt) and Ind-Ra believes that the spreads are likely to remain healthy, given the weak export prospects from India and Thailand, which are the two key suppliers of white sugar internationally. Domestic sugar prices have risen to over INR36/kg in 4MFY24 (FY23: INR35/kg), given the lower production in sugar season (SS)2023 and the likelihood of a further fall in SS2024.

Furthermore, while the distillery segment's EBITDA remained flattish at INR2.4 billion in FY23 (FY22: INR2.3 billion), Ind-Ra expects it to increase to around INR3.5 billion over the next couple of years, given the recent capacity expansion. Higher contribution from the distillery segment would also reduce the reliance of SRSL's overall EBITDA on the refinery segment, which remains susceptible to volatility in international refining spreads.

Strong Linkages with Parent: SRSL is a step-down subsidiary of Wilmar (through Wilmar Sugar Holdings Pte Ltd). With a 62.5% shareholding, 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. 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. SRSL accounts for around 20% of Wilmar's total sugar capacity. SRSL procures a major portion of its raw sugar requirement for the refining business from Wilmar at competitive prices and credit terms.

The strategic linkages between the entities emanate from the fact that Wilmar remains focused on the sugar sector, with a view to widen its consumer product portfolio and increase its wallet share in the populated markets along with growth opportunities in the ethanol segment. Wilmar's total investment in SRSL stood at INR61 billion in FY23 (FY22: INR54 billion) in addition to which it had extended loans of INR12.4 billion (FY22: INR10.7 billion) to SRSL's subsidiary, Renuka Commodities DMCC, Dubai, during the year. Apart from this, it has extended corporate guarantees worth around INR16.7 billion to SRSL, taking the total exposure to over USD1 billion, indicating the latter's strategic importance. With the extension of corporate guarantee towards the new debt of INR3.5 billion availed in FY23, the entire external debt of SRSL is guaranteed by Wilmar (FY22: 86%, FY23: 90%), indicating strong willingness to support. Further as given to understand by the management, any future loans availed by SRSL are likely to be guaranteed by Wilmar.

Continued Support Demonstrated by Strong Parent: Of SRSL's total outstanding debt of INR43.1 billion at FYE23 (FYE22: INR41.3 billion), 57% (54%) was in the form of external commercial borrowing (ECB) of USD300 million, extended by Wilmar largely to prepay the former's restructured debt. Wilmar also continues to provide support to SRSL in the form of trade advances and extended credit periods for raw sugar purchases (total outstanding trade dues at FYE23: INR16.8 billion, FYE22: INR11.1 billion; FYE21: INR20.8 billion), indicating the parent's strong ability and willingness to support SRSL. The ECB has a maturity in FY2026 and the management of Wilmar has communicated to Ind-Ra its continued willingness to provide support to SRSL as and when needed. Furthermore, the management has indicated that there exists flexibility on the servicing of Wilmar's obligations as needed.

Wilmar is a leading branded consumer pack oil, specialty fat and oleochemical producer and edible oil refiner in the world, with over 500 manufacturing plants and an extensive distribution network covering over 50 countries. Wilmar's revenue grew 12% yoy to USD73.4 billion in 2022, with stable operating margins of 6.4% (2021: 6.3%). While its net debt remained high (2022: USD18.7 billion, 2021: USD17.2 billion), over three-fourth of the same was in the form of working capital borrowings. The proforma net leverage (net debt/EBITDA) remained stable at 4.0x in 2022 (2021: 4.1x), while the net interest coverage (EBITDA/net interest expense) was healthy at 10.6x (16.5x). It had available liquidity of USD26.7 billion at end-December 2022 (2021: USD21.75 billion) in the form of cash, trade finance and committed undrawn lines.

Improvement in Credit Metrics: With an improvement in profitability, SRSL's external net leverage (net debt excluding debt from parent/EBITDA) reduced to 3.1x in FY23 (FY22: 5.0x), while the interest coverage on external debt (EBITDA/interest on external debt) increased to 3.1x (2.4x), both better than Ind-Ra's expectations. After increasing to INR18.8 billion in FY22 (FY21: INR16.1 billion), the external net debt witnessed a marginal reduction to INR17.9 billion in FY23 even as the company spent around INR7 billion over FY22-FY23 towards capex, mainly to increase the distillery capacity. Its working capital-adjusted net leverage also turned negative in FY23 (FY22: 1.2x).

The company is likely to invest in the business as and when there are any appropriate opportunities. Notwithstanding some increase in debt, Ind-Ra believes SRSL's external net leverage will remain range-bound in FY24, given the robust EBITDA outlook.

Ind-Ra continues to adjust the credit metrics for the parent debt/advances, given the flexibility on servicing the same. The overall interest coverage stood at 1.1x in FY23 (FY22: 1.0x), while the total net adjusted leverage came in at 7.4x (FY22: 10.9x), and is likely to remain elevated in the near term as the balance sheet remains debt-heavy, owing to legacy pre-restructuring losses.

Liquidity Indicator - Adequate: SRSL's high financial flexibility is driven by the presence of a strong parent that has constantly infused funds to support the former's liquidity. Furthermore, with an increase in EBITDA, SRSL is likely to generate sufficient cash flows to meet its external debt obligations (including scheduled annual repayments in FY24 and FY25) in the near term. After being negative for two years, SRSL's cash flow from operations turned healthy and positive at INR4.6 billion in FY23 (FY22: INR0.07 billion) on the back of higher EBITDA and unwinding of working capital (FY23: INR2.5 billion, FY22: negative INR2.4 billion). Ind-Ra expects the cash flow from operations to remain positive in the near term owing to the healthy profitability and range-bound working capital requirements. Despite capex of INR3.8 billion, the free cash flow also turned positive at INR0.5 billion in FY23 (FY22: negative INR3.2 billion). SRSL's average utilisation of its INR7.8 billion fund-based working capital limit was about 80% in the 12 months ended June 2023. The cash and cash equivalents stood at INR0.7 billion in FY23 (FY22: INR0.1 billion), against scheduled debt repayments of around INR2 billion in FY24 and INR2.7 billion in FY25.

Leading Sugar Producer with Strong Presence in Branded Sugar: SRSL (along with its subsidiary Gokak) has the fifth-largest sugar manufacturing capacity in India and is also a leading supplier of ethanol to oil marketing companies. SRSL has an operating track record of over 25 years in the sugar business, and furthermore, it is geographically diversified, with a presence in Karnataka and Maharashtra. Besides, the company is the leading sugar refiner in the country. SRSL's Madhur is the leading sugar brand in the country, with a share of around one-third of the branded sugar market, according to the management. Branded sale volumes, which yield higher margins, have grown significantly over the past couple of years, with the sales volumes in FY23 being nearly double of the levels recorded in FY20. Its branded sale volumes stood at 44% in FY23, up as branded volumes grew 15%yoy, aiding profitability.

Proposed Expansion to Enhance Geographical Diversification: SRSL has signed a non-binding term sheet for acquisition of 100% of equity shares in a sugar manufacturing company located in Uttar Pradesh the largest sugar producing state in India. The proposal will be finalised after satisfactory due diligence, which is likely to be completed in 2QFY24. The acquisition would not only enhance SRSL's scale and market position but also enhance its geographical diversification by giving it an entry into North India.

Planned Simplification of Group Structure likely to be Credit Neutral: SRSL is in the process of amalgamating its subsidiaries: Monica Trading Private Limited, Shree Renuka Tunaport Private Limited and Shree Renuka Agri Ventures Limited and Gokak Sugars Limited with itself to simplify the group structure, subject to regulatory approvals. Ind-Ra believes that the amalgamation is unlikely to materially impact the credit profile of SRSL, considering the modest operations and negligible external debt in these subsidiaries.

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 loss of INR0.7 billion in FY23 (including mark-to-market gains/losses on payables and advances from Wilmar) (FY22: loss of INR0.3 billion and FY21: gain of INR0.7 billion). The forex policy is aligned to that of the parent.

Agro-climatic and Regulatory Risks; High Working Capital Intensity: Sugar, being an agro-based industry, is prone to vagaries of monsoons. Also, as sugar is an essential commodity, it faces a high level of government intervention. Furthermore, the sugar business is inherently a working capital-intensive business, given the seasonality in the industry.

Rating Sensitivities

Positive: Increase in scale and diversification along with a substantial improvement in profitability and credit metrics wit net leverage (on external debt) sustaining below 2.75x and the interest coverage (on external debt) exceeding 3.25x with along with maintenance of strong linkages with parent 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) declining below 2.5x could lead to a negative rating action. Additionally, any weakening of linkages and/or support from Wilmar will lead to a negative rating action.

ESG Issues

ESG Factors Minimally Relevant to Rating: Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on SRSL, either due to their nature or the way in which they are being managed by the entity. For more information on Ind-Ra's ESG Relevance Disclosures, please click here. For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click here.

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	FY23	FY22
Gross revenue (INR million)	85.8	61.3
Operating EBITDA (INR million)	5.7	3.8
Operating EBITDA margin (%)	6.6	6.2
External interest coverage (x)	3.1	2.4
External net leverage (x)	3.1	5.0
Source: Company, Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Rating Type	Rated Limits (million)	Current Ratings/Outlook	Historical Rating/Rating Watch/Outlook		
				18 August 2022	19 August 2021	20 Augus 2020
Issuer rating	Long-term	-	IND A/Stable	IND A-/Positive	IND A-/Positive	IND BBB+/Ratir Watch witl Positive Implicatior
Fund-based/Non-fund-based working capital limit	Long-term/Short-term	INR7,800	IND A/Stable/IND A1	IND A-/Positive/IND A1	IND A-/Positive/IND A1	-
Term loan	Long-term	INR6,265	IND A/Stable	IND A-/Positive	IND A-/Positive	IND BBB+/Ratir Watch witl Positive Implicatior
Short term loans	Short-term	INR4,000	IND A1	IND A1	IND A1	IND A2+/Ratin Watch witl Positive Implicatior
NCDs	Long-term	INR4,859	IND A/Stable	IND A-/Positive	IND A-/Positive	IND BBB+/Ratir Watch witl Positive Implicatior

Annexure

Instrument Type	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook
NCDs	INE087H07094	3 April 2012	11.7	31 March 2024	INR455	IND A/Stable
NCDs	INE087H07128	24 December 2012	11.3	31 March 2024	INR304	IND A/Stable
NCDs	INE087H07110	24 December 2012	11.0	31 March 2032	INR500	IND A/Stable
NCDs	INE087H07102	3 April 2012	11.0	31 March 2032	INR750	IND A/Stable
Proposed NCDs	-	-	-	-	INR2,850	IND A/Stable
Total NCDs					**INR4,859**	

Note: Following the transfer of securities from old ISINs to new ISINs, the earlier ISIN of INE087H07060 (INR1,253 million) is now INE087H07094 and INE087H07102 (totalling INR1,205 million) and earlier ISIN of INE087H07078 (INR835 million) is now INE087H07128 and INE087H07110 (totalling INR804 million).

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
Term loan	Low
NCD	Low
Working capital limit	Low
Short-term loan	Low

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

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process