Press Release

Wave Industries Private Limited

June 20, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Term Loan	251.50 (increased from Rs.217.91 crore)	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Revised and removed from ISSUER NOT COOPERATING category	Simple
Long Term Fund Based Bank Facilities – Cash Credit	497.00 (increased from Rs.402.50 crore)	IVR BBB-/ Negative (IVR Triple B Minus with Negative Outlook)	Revised and removed from ISSUER NOT COOPERATING category	Simple
Total	**748.50 (Rupees Seven Hundred Forty Eight crore and Fifty lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision to the ratings assigned to the bank facilities of Wave Industries Private Limited (WIPL) takes into account experienced promoters and management, integrated nature of business operations with locational advantage, gradual improvement in financial performance, ongoing CAPEX, diversification initiative through ethanol production, moderate capital structure and debt protection metrics and favourable government regulations. The ratings are, however, constrained by working capital intensive nature of operations, profitability of UP-based sugar mills continues to depend on GoUP policy on cane prices, exposure to regulatory risk and agro-climatic risks, exposure to group companies and cyclical nature of the sugar business.

Further, the outook is revised to negative from stable on account of uncertainty involves around recoverability of debtors outstanding more than 3 years.

The rating was migrated to ISSUER NOT COOPERATING category as Wave Industries Private Limited (WIPL) had not submitted all the required information for surveillance under the stipulated timelines. Subsequently, WIPL has cooperated and provided the information leading to removal of the rating from ISSUER NOT COOPERATING category.

Key Rating Sensitivities:

Upward Factors

- Sustained increase in scale of operation of more than 30% with improvement in cash accruals.
- Sustenance of capital structure with improvement in debt protection marked by improvement in interest coverage ratio to over 3x.
- Improvement in working capital management.

Downward Factors

- Any Decrease in operating income and/or profitability impacting the debt coverage indicators on a sustained basis.
- Withdrawal of subordinated unsecured loan (treated as quasi-equity) amounting to Rs.48.24 crore either partially or fully and/or any un-envisaged incremental debt funded capital expenditure leading to a deterioration in its overall gearing ratio deteriorated over 2x.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management

The company have established presence in the industry from last three decades. The company is a part of 'Wave Group' having a presence in diversified businesses in north India. The Group was initially promoted by Late Mr. Gurdeep Singh Chadha (popularly known by the name, Mr. Ponty Chadha) and is now being looked after by Mr. Rajinder Singh Chadha (Chairman) and Mr. Manpreet Singh Chadha, brother, and son respectively of late Mr. Gurdeep Singh Chadha. The directors of the company are well qualified and have extensive experience in the industry.

Integrated nature of business operations with locational advantage

The company operates a co-gen power plant that utilises bagasse, a sugar by-product, as fuel and power is sold to UPPCL at predetermined tariffs. Further, WIPL's all five units are in the western Uttar Pradesh, three being operational, with sugarcane presence in bulk and plus the quality of the crop, which provides proximity to the required raw material from the local farmers. Around ~35000-40000 farmers are the suppliers to WIPL.

Gradual improvement in financial performance

The operating income (TOI) of the company witnessed a CAGR of ~23.42% during FY20-23 with a y-o-y growth of ~5.98% in FY23 (Provisional). The company's revenue increased by 5.98% in FY23 to Rs.1428.17 crore from Rs.1347.55 crore in FY22 mainly on account of increase in volume of sales from steel and distillery division as well as better realizations. The company's EBITDA margin improved marginally from 6.92% in FY22 to 6.98% in FY23. The increase in EBITDA margin is majorly due to better operating efficiency of the company in FY23. In line with this, the adjusted PAT margin of the company also increased from 3.01% in FY22 to 3.11% in FY23. The increase in adjusted PAT margin is majorly due to accretion of profits to reserves in FY23. In line with this, WIPL's adjusted GCA improved from Rs.54.01 crore in FY2 to Rs.68.30 crore in FY23. With the expansion of distillery unit in FY23-24 the profitability of the company is expected to improve going forward.

Ongoing CAPEX

The company has ongoing capex at its plant located in Dhanaura, Uttar Pradesh amounting to Rs.168.34 crore to enhance crushing capacity of its sugar unit at from 8300 TCD to 10000 TCD and to enhance the distillery unit from 140 KLPD to 250 KLPD (on B-Molasses). The company is also planning to operationalize its unit at Saharanpur by November 2023. The capex will be funded by way of term loan of Rs.109.00 crore, and balance of Rs.59.34 crore by way of internal accruals.

The company has incurred Rs.72.00 crore till March 31, 2023 for enhancing crushing capacity of its sugar unit and distillery unit. The same was funded by way of term loan of Rs.46.00 crore and internal accruals of Rs.26.00 crore. The company plans to incur the remaining capex of Rs.96.34 crore in FY24 to be funded from term loan of Rs.63.00 crore and internal accrual of Rs.33.34 crore. The capacity of sugar unit was enhanced in November 2022 and for the distillery unit, it will be done by August 2023.

Diversification initiative through Ethanol production

The company has completed the installation of 140 KLPD distillery plant at Dhanaura in March 2022, that utilises B-molasses, to produce ethanol and industrial alcohol. These provide alternate sources of revenue and a cushion against cyclicality and volatility in the sugar business. Further it plans to expand its plant capacity to 250 KLPD, whereby the CAPEX expansion has already been started and is expected to be completed by August 2023.

Moderate capital structure and debt protection metrics

Financial risk profile of the company is marked by moderate capital structure and debt protection metrics. Its capital structure has remained on similar levels in FY23 as compared to FY22 with adjusted overall gearing and adjusted TOL/TNW ratios at 1.17x and 1.74x respectively as on March 31, 2023 as against 1.11x and 1.78x respectively as on March 31, 2022, but continues to be moderate. The adjusted overall gearing has moderated in FY23 as compared to FY22 due to increase in debt levels of the company in FY23. The improvement in adjusted TOL/TNW is due to reduction in payables in FY23 as compared to FY22 as well as accretion of profits to reserves.

The debt protection metrics remained comfortable with adjusted interest coverage ratio and adjusted Total debt/ GCA ratio of 2.38x and 9.30x respectively in FY23 against 2.61x and 10.08x respectively in FY22.

Favourable government regulations

WIPL benefits from the various fiscal incentives extended by the Government to the domestic sugar industry which include subsidy for sugar exported, capital subsidy, soft loans interest subvention scheme. The Government of India also fixes the threshold cane procurement price annually, while periodically revising the minimum sugar realisations. The Government has also promoted the manufacturing of ethanol from B-molasses against C-molasses mainly by offering it a relatively higher realisation. Measures like the aforesaid collaboratively aid improvement the financials of the sugar companies.

Key Rating Weaknesses

Working capital intensive nature of operations

The operating cycle remained elongated over the past three account closing dates as on March 31, 2023. In FY23, the operating cycle stood at 99 days vis-a-vis 98 days in FY22 and 129 days in FY21 respectively. The prices of sugar is controlled by the Government in order to curb the demand and supply gap in the economy. As a result, monthly quotas w.r.t. releasing is provided to each sugar mill during Q4 of any financial period which has to be adhered to while supplying sugar in the domestic market. Due to this, companies in the sugar industry generally have a huge pile up of inventory which affects the operating cycle. WIPL also had an elongated inventory holding period of 148 days in FY23 as against 169 days in FY22. Its collection period was 13 days in FY23 as against 16 days in FY22, while its average creditor days stood at 62 days in FY23 as against 87 days in FY22. The elongated operating cycle is mainly funded by way of unsecured loans. The company has an outstanding receivables of more than 3 year of Rs.18.85 crore and there is uncertainty regarding its recoverability. However, company is regularly following-up with debtors to recover the same.

Profitability of UP-based sugar mills continues to depend on GoUP policy on cane prices

WIPL's profitability, along with other UP-based sugar mills, continues to be vulnerable to the GoUP's policy on cane prices. The cane price is determined by the GoUP at the start of the crushing season. Thus, the company's performance can be impacted by a disproportionate increase in cane price. Further, the profitability remains vulnerable to the Government's policies on exports, export subsidy, MSP, and remunerative ethanol prices. The recent measures taken by the Central Government and the GoUP have supported sugar prices and liquidity of sugar mills. The continuation of Government support in the form of remunerative ethanol prices and subsidies for exports are also likely to prevent the piling up of cane arrears.

Exposure to regulatory risk and agro-climatic risks

Being an Agri-commodity, the sugar cane crop is dependent on weather conditions and is vulnerable to pests and diseases that may impact not only the yield per hectare but also the recovery rate. These factors can have a significant impact on the company's profitability. Further, the industry is highly regulated with inability to pass increased costs to buyers and lack of control over input prices. Profitability remains vulnerable to government regulations on input prices, finished goods prices via domestic sale quota, import and export restrictions, pricing of power produced etc. Over the long term, higher ethanol production with increased diversion towards B-heavy molasses and direct sugar juice will likely curtail the excess supply of sugar, resulting in lower volatility in sugar prices and hence, cash flows from the sugar business.

Exposure to group companies

The company has high exposure to its group companies in the form of corporate guarantees and extended loans and advances.

Cyclical nature of the sugar business

The key parameters of the sugar supply in the domestic market for a given sugar season are typically controlled by factor like domestic sugar production, opening sugar stock levels and global sugar production and sugar imports. The industry is highly cyclical in nature because of variations in the sugarcane production in the country with typical sugar cycles lasting three five years, as production adjusts to the fall in prices, which in turn leads to lower supplies, price increase and higher production.

Analytical Approach: Standalone

Applicable Criteria:

Policy on Default Recognition

Criteria of assigning Rating outlook

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

WIPL's liquidity position remained adequate marked by current ratio of 1.06x as on March 31, 2023. The adjusted GCA has also improved from Rs.54.01 crore in FY22 to Rs.68.30 crore in FY23. The company's cash accruals are sufficient to meet its repayments in FY24-26. The average utilisation if its fund based working capital facilities is 75.62% in the 12 months ended March 2023, giving it sufficient headroom. The company has ongoing capex of Rs.168.34 crore to enhance crushing capacity of its sugar unit from 8300 TCD to 10000 TCD and to enhance the distillery unit from 140 KLPD to 250 KLPD (on B-Molasses) at its plant located in Dhanaura, Uttar Pradesh. The capex will be funded by way of term loan of Rs.109.00, and balance of Rs.59.34 crore by way of internal accruals. The capex is expected to be completed by August 2023.

About the company

Wave Industries Private Limited (WIPL), incorporated in 1997, is a part of The Wave group (formerly known as the Chadha group) having diversified business interests. The group has diversified business interests including liquor trade, sugar manufacture, paper manufacture, film distribution, education, malls, and multiplexes, as well as residential and commercial real estate.

WIPL is majorly engaged in the manufacturing and trading of sugar with its five mills at Dhanaura, Amroha, Bijnor, Saharanpur, and Bulandshahar, located in western Uttar Pradesh. The total installed gross capacity of all the units is around 21000 TCD. However, the mills at Dhanaura, Bijnor and Bulandshahar with an aggregate capacity of 16000 TCD are presently operational. The company also has a 33-megawatt power generation plant in its Dhanaura mill that uses bagasse, produced as a by-product of sugar manufacture, as fuel. Further, the surplus power is supplied to the UP-State Electricity Board under a power purchase agreement. The company also owns a TMT plant with a manufacturing capacity of 72,000 metric tonne per annum. The company has installed a Distillery plant of 140 KLPD at its existing sugar mill at Dhanaura with a 7MW power cogeneration plant. Further, it plans to expand the plant to 250 KLPD by August 2023. The company also has business interest in trading of agro & dairy products and in film distribution. Earlier, the company was engaged in liquor trade, which the company has shut down since March 2018.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	1347.55	1428.17
EBITDA	93.21	99.73
PAT	32.94	38.63
Adjusted PAT#	*40.91*	*45.14*
Total Debt	544.47	635.48
Adjusted Tangible Net worth	484.79	535.95
Ratios		
EBITDA Margin (%)	6.92	6.98
PAT Margin (%)	2.42	2.66
Adjusted PAT Margin (%)	*3.01*	*3.11*
Overall Gearing Ratio (x)	1.11	1.17

**Classification as per Infomerics' standards*

#The company took interest free loan from the promoters and as per Ind AS-109, the company had to book notional interest under the head unwinding interest, charged as a finance cost in the P/L statement. The company further submitted an undertaking stating that the unwinding interest is actually not payable to the promoters. Based on the undertaking provided by the company, Infomerics adjusted that unwinding interest with interest expenses and according calculated Adjusted PAT

Status of non-cooperation with previous CRA:

Brickwork ratings has continued the rating into issuer not cooperating category vide its press release dated June 2, 2023, due to non-submission of information. CRISIL ratings has continued the rating into issuer not cooperating category vide its press release dated May 30, 2022, due to non-submission of information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (April 26, 2023)	Date(s) & Rating(s) assigned in 2022-23 (June 20, 2022)	Date(s) & Rating(s) assigned in 2021-22 (March 2, 2021)
1.	Term Loan	Long Term	209.14	IVR BBB-/ Negative	IVR BB+/ Negative; Issuer Not Cooperating*	IVR BBB-/ Stable	IVR BBB-/ Stable (Under Credit Watch with Developing Implications)
2.	GECL	Long Term	42.36	IVR BBB-/ Negative	IVR BB+/ Negative; Issuer Not Cooperating*	IVR BBB-/ Stable	IVR BBB-/ Stable (Under Credit Watch with Developing Implications)
3	Cash Credit	Long Term	497.00	IVR BBB-/ Negative	IVR BB+/ Negative; Issuer Not Cooperating*	IVR BBB-/ Stable	IVR BBB-/ Stable (Under Credit Watch with Developing Implications)

**Issuer did not cooperate; based on best available information*

Name and Contact Details of the Rating Analyst:

Name: Vaibhav Jain Tel: (022) 62396023 Email: vaibhav.jain@infomerics.com	Name: Amit Bhuwania Tel: (022) 62396023 Email: abhuwania@infomerics.com

About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crore)	Rating Assigned/ Outlook
Term Loan	-	-	August 2027	209.14	IVR BBB-/ Negative
GECL	-	-	January 2028	42.36	IVR BBB-/ Negative
Cash Credit	-	-	-	497.00	IVR BBB-/ Negative

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Len-WIPL-jun23.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.