Davangere Sugar Company Limited

July 13, 2026

Facilities/Instruments	Name of the Regulator[1]	Amount (₹ crore)	Rating[2]	Rating Action
Long Term Bank Facilities	RBI	219.15	CARE BBB- (RWN)	Placed on Rating Watch with Negative Implications
Short Term Bank Facilities	RBI	24.84	CARE A3 (RWN)	Placed on Rating Watch with Negative Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Davangere Sugar Company Limited (DSCL) has raised USD 100 million of Foreign Currency Convertible Bonds (FCCBs) at 15% discount. The proceeds are proposed to be utilized towards acquisitions in the sugar and ethanol sectors, strategic partnerships/joint ventures, and related capital expenditure, including refinery and port storage infrastructure, technology procurement, and project development initiatives.

The amount of FCCB issuance is significantly high compared to the company's current networth base and could have a significant impact on the company's debt profile. While the FCCBs carry an embedded option for conversion into equity, such conversion remains contingent upon bondholder discretion. Consequently, in a non-conversion scenario, the instrument would effectively function as debt While the FCCBs carry an embedded option for conversion into equity, such conversion remains contingent upon bondholder discretion. Consequently, in a non-conversion scenario, the instrument would effectively function as debt, requiring periodic coupon servicing and eventual principal repayment, thereby increasing refinancing and debt-servicing risks. Furthermore, the proceeds are intended to be deployed towards acquisitions and strategic investments; however, key aspects, including the identification of target entities, transaction economics, funding structure, and the resultant financial profile of the combined business, remain undetermined. In the absence of visibility on these critical parameters, the extent to which the proposed capital deployment will enhance earnings, cash flow generation, and leverage metrics cannot be reliably assessed. Accordingly, CARE Ratings Limited (CareEdge Ratings) has placed the ratings under Rating Watch with Negative Implications (RWN) due to the uncertainty surrounding the utilization of the FCCB proceeds and the resultant impact on DSCL's leverage, debt-servicing capability, and overall credit profile. The rating watch would be resolved once greater clarity emerges on the proposed acquisitions and their implications for the company's financial and credit risk metrics.

The ratings positively factor in the improved liquidity position following the funds raised through the Rights Issue (RI) in August 2025. A portion of the RI proceeds was utilized towards repayment of borrowings and procurement of raw materials for the distillery division, leading to an improvement in the company's capital structure. The ratings also derive comfort from the company's ability to sustain its scale of operations and maintain moderate profitability despite high sugarcane procurement costs. The expansion of the distillery division, which is a relatively higher-margin business segment, is expected to support the company's operational and financial performance over the medium term.

However, the ratings remain constrained by DSCL's presence in the cyclical and highly regulated sugar industry, along with its exposure to agro-climatic risks. The ratings, however, continue to draw support from the company's long operational track record and the extensive experience of its promoters in the sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations above ₹300 crore with term debt (TD) /profit before depreciation, interest, and tax (PBDIT) less than 1.5x and interest coverage ratio (ICR) above 2.5x.

Negative factors

- Decline in scale of operations below ₹200 crore with TD/PBILDT above 4.50x or ICR below 1.75x.

[1]SEBI: Securities and Exchange Board of India; RBI: Reserve Bank of India; MCA: Ministry of Corporate Affairs; IRDAI: Insurance Regulatory and Development Authority of India; PFRDA: Pension Fund Regulatory and Development Authority

[2]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE Ratings Limited's publications.

Analytical approach: Standalone.

The company has recently incorporated a wholly owned subsidiary, Aurevant Global Limited in United Kingdom, which would be used as investment vehicle for potential acquisition of business(es) through FCCB proceeds. Accordingly, CareEdge Ratings may change the analytical approach to Consolidated once the company starts reporting the same.

Outlook: Not Applicable

Detailed description of key rating drivers

Key strengths

Improved capital structure

The company raised funds through a Rights Issue (RI) in August 2025 and utilized a portion of the proceeds towards the repayment of short-term borrowings and unsecured loans. The substantial increase in net worth, along with the reduction in debt levels, resulted in a notable improvement in the capital structure, with the overall gearing ratio improving to 0.84x as on March 31, 2026, from 1.86x as on March 31, 2025.

However, the FCCB raised by the company may impact its capital structure which would be closely monitored by CareEdge Ratings.

Sustained scale of operations

The company's Total Operating Income (TOI) increased to ₹239 crore in FY2026 from ₹215 crore in FY2025, driven by higher sugar sales volumes and healthy revenue contribution from the distillery division. However, profitability moderated during the year, with the PBILDT margin declining to 20% in FY2026 from 24% in FY2025, primarily due to elevated sugarcane procurement costs.

Going forward, the company's ability to sustain its revenue growth while maintaining healthy profitability margins amid fluctuations in raw material costs and industry dynamics will remain a key monitorable.

Long track record and experienced promoters

DSCL has over five decades of track record in its present line of business. DSCL enjoys established relationship with farmers operating in the same region over the decades. The company's day-to-day operations are managed by SS Ganesh (MD), who is adequately supported by a group of professionals having rich business experience in the operative industry.

Key weaknesses

Potential moderation in Debt coverage indicators

The company has raised USD 100 million through the issuance of FCCBs, a quantum that is significant relative to its existing capital base and is likely to increase leverage levels, potentially moderating its debt protection metrics over the medium term. In addition, the FCCBs carry periodic coupon payment obligations, which are expected to add to the company's fixed financial commitments and debt servicing burden.

Further, there remains limited visibility regarding the deployment of the FCCB proceeds, including the identification of acquisition targets and the returns expected from such investments. The credit implications of the transaction are further accentuated by the fact that conversion of the FCCBs into equity is contingent upon bondholder discretion. Consequently, in the event of non-conversion, the company would be required to redeem the bonds at maturity, resulting in a substantial repayment obligation.

Given the uncertainty surrounding the end-use of funds, the eventual funding structure of the proposed investments, and the potential outcomes under both conversion and non-conversion scenarios, the impact on the company's capital structure, leverage profile, liquidity position, and debt repayment capacity remains difficult to assess at this stage. Accordingly, these developments warrant close monitoring from a credit perspective.

Elongation in operating cycle

The sugar industry is characterised by high levels of inventory holding (due to seasonality associated with sugarcane), and low credit on sugarcane purchase, makes the company's operations working capital intensive. Sugar industry being seasonal in nature has high working capital requirements in the peak season, which is from November to April. The companies have high working capital requirements in the peak season to procure their primary raw material, sugarcane, and manufacture sugar in this period. Woking capital cycle remained elongated at 355 days as of March 31, 2026, due to high inventory holding days.

Cyclical and regulated industry

The industry is cyclical and vulnerable to government policies for factors such as importance in wholesale price index (WPI), as sugar is classified as an essential commodity. Governments (both Union and State) resort to regulations such as fixing raw material (sugarcane) prices under Fair and Remunerative Prices (FRP) and State Advised Prices (SAP). All these factors impact sugarcane cultivation patterns in the country, affecting profitability for sugar companies. India also continues to carry high levels of sugar inventory, largely due to controlled release mechanism followed by the Government. The company's performance can be impacted by disproportionate increase in cane price in a particular year. Profitability remains vulnerable to Government's policies on exports, MSP, and remunerative ethanol prices. In addition, cyclicality in sugar production results in volatile sugar prices.

Inherent to agro-climatic risk
The sugar industry, directly depending on sugarcane crop and its yield, is susceptible to agro-climatic risks including pest and diseases. Climatic conditions, more specifically, monsoons influence operational parameters for a sugar entity, such as crushing period and sugar recovery levels.

Liquidity: Adequate
The company raised funds through an RI in August 2025, which were utilised to partially repay borrowings and to procure raw materials, strengthening its overall liquidity position. Resultantly, the company's liquidity remains adequate, supported by the improved financial flexibility and anticipated satisfactory cash accruals, which are expected to comfortably meet upcoming debt-repayment obligations. The ethanol division continues to be a key contributor to the company's profitability. As on March 31, 2026, the company maintained a cash and bank balance of ₹6.58 crore. The company's current ratio stood at a satisfactory 1.95x as on March 31, 2026, underscoring a stable liquidity profile.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Sugar Sector
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

DSCL was incorporated in 1970 and acquired by current promoters in 1995. SS Ganesh takes care of the day-to-day functioning of the company.

The company has sugar crushing capacity of 4750 TCD, co-generation unit of 24.45 MW and a 65 KLPD distillery unit, which is being planned to be expanded to 85 KLPD.

Brief Financials (₹ crore)	March 31, 2025 (A)	March 31, 2026 (A)
Total operating income	215.02	238.80
PBILDT*	52.02	48.38
Profit after tax (PAT)	10.05	8.51
Overall gearing (x)	1.86	0.84
Interest coverage (x)	1.84	1.79

A: Audited; Note: these are latest available financial results
*PBILDT: Profit before interest, lease rentals, depreciation, and tax

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-1

Lender details: Annexure-4

Disclosure on facilities/instruments and name of the regulators:
A list of facilities / instruments falling under the purview of various financial sector regulators (FSRs) along with the names of respective FSRs has been duly disclosed by CareEdge Ratings on its website. A link to the same has been provided below for ready reference:

https://www.careratings.com/activities_and_regulators

Note: For facilities or instruments falling under the purview of FSRs other than Securities and Exchange Board of India (SEBI), the grievance / dispute redressal mechanisms and investor protection mechanisms provided by SEBI shall not be available.

Annexure-1: Details of instruments/facilities

Name of the Instrument	Name of the Regulator	Complexity Level	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	RBI	Simple	-	-	-	-	109.00	CARE BBB- (RWN)
Non-fund-based - ST-Letter of credit	RBI	Simple	-	-	-	-	24.84	CARE A3 (RWN)
Term Loan-Long Term	RBI	Simple	-	-	-	30-06-2029	110.15	CARE BBB- (RWN)

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2026-2027	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024
1	Fund-based - LT-Cash Credit	LT	109.00	CARE BBB- (RWN)	-	1)CARE BBB-; Stable (12-Mar-26)	1)CARE BB+; Stable (05-Mar-25)	1)CARE BB+; Stable (14-Mar-24)
2	Non-fund-based - ST-Letter of credit	ST	24.84	CARE A3 (RWN)	-	1)CARE A3 (12-Mar-26)	1)CARE A4+ (05-Mar-25)	1)CARE A4+ (14-Mar-24)
3	Term Loan-Long Term	LT	110.15	CARE BBB- (RWN)	-	1)CARE BBB-; Stable (12-Mar-26)	1)CARE BB+; Stable (05-Mar-25)	1)CARE BB+; Stable (14-Mar-24)

LT: Long term; ST: Short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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