Davangere Sugar Company Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	164.35 (Enhanced from 100.35)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	13.22	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	**177.57 (Rs. One Hundred Seventy-Seven Crore and Fifty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to Davangere Sugar Company Limited (DSCL) continues to factor the modest scale of operations, moderate debt coverage indicators and high operating cycle. The ratings are also constrained by the company's presence in cyclical and regulated nature of the industry and is exposed to Inherent to Agro-climactic risk. Company is at advanced stages of installation of distillery unit and its ability to ram up the production will be key to its credit profile. These rating weaknesses are partially offset by long track record and experienced promoters and improved profitability margins.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustainable improvement in the scale of operations above Rs.220 Cr with PBILDT margins above 19% and PAT Margins above 2%
- Overall gearing below 2x with TD/GCA below 12.50x and ICR of more than 2.00x

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in overall gearing beyond 2.50x and ICR below 1.50x
- Elongation in operating cycle beyond 250 days with inventory days above 200 days

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate scale of operations

Davangere Sugars is largely reliant on the sugar segment alone as almost 85-95% of its total operating income is contributed by the sugar segment and hence is more vulnerable to sugar cyclicality vis-à-vis other players who are forward integrated into distillery & Cogenerations. Davangere sugar mill operations are partially forward integrated in form of 24.45 MW co-generation unit. The income from sale of power ESCOM's contributes around 8-10% of the total income. The total operating income of the company has subbed to Rs.147.81 Cr in FY21 when compared to Rs.203.29 Cr in FY20 majorly on account of reduced sales in sugar lower mainly due to low market demand and sugar realizations due to covid and nationwide imposed restrictions. In 9MFY22 the Total operating income stood at Rs.76.92 Cr.

Leveraged capital structure with moderate debt coverage indicators

Overall gearing of the company has improved marginally and stood at 1.96x as on March 31,2021 when compared 2.14x as on March 31, 2020. The improvement in the gearing ratio is on account of lower working capital utilisation as on March 31,2021 coupled with accretion of profits. Interest coverage ratios marked by PBILDT to interest coverage stood at 1.73x in FY21 when compared to 1.53x in FY20 on account of lower interest and finance cost in FY21.
Debt coverage indicators marked by Total debt /PBILDT stood at 6.55x in FY21 when compared to 5.94x in FY20 an account of comparatively lower PBILDT margins in absolute terms when compared to FY20. Total debt to GCA was high at though improved to 15.50x in FY21 when compared to 17.20x in FY20 on account of comparatively lower debt levels**.**

Elongation in operating cycle

The sugar industry is characterized by high levels of inventory holding (due to seasonality associated with sugarcane), coupled with low credit on sugarcane purchase, makes the operations of the company working capital intensive. Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. The average working capital utilization remains high at 92.98% for the trailing twelve months ended February 28, 2022. Operating cycle of the company stood at 212 days in FY21 when compared to 193 days in FY20. Deterioration in operating cycle is on account of increase in average collection period and high inventory periods. Total inventory holding period has declined and stood at 139 days when compared to 160 days in FY20, however collection period has seen a deterioration and stood at 78 days in FY21 when compared to 42 days in FY20 on account of

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

higher credit period offered to its customers on account of covid-19 and average creditor's payment period stood at 5 days when compared to 9 days in FY20 as mostly are sugarcane payables to the farmers. As on January 31,2022 the inventory holding stood high at 105.16 Cr on account of higher molasses storage for ethanol production in FY23 off season.

Cyclical and regulated nature of the industry
The industry is cyclical by nature and is vulnerable to the government policies for various factors like its importance in the Wholesale Price Index (WPI), as sugar is classified as an essential commodity. The governments (both Union and State) resort to various regulations such as fixing the raw material (sugarcane) prices in the form of Fair & Remunerative Prices (FRP) and State Advised Prices (SAP). All these factors impact the cultivation patterns of sugarcane in the country and thus affect the profitability of the sugar companies. India also continues to carry high levels of sugar inventory largely due to the controlled release mechanism followed by the Government.

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

Key Rating Strengths
Long track record and experienced promoters
DSCL has more than five decades of track record in the present line of business. DSCL enjoys established relationship with farmers having operated in the same region over the decades. The day to day operations of the company are looked after by Mr S S Ganesh (MD), who is adequately supported by a group of professionals having rich business experience in the operative industry.

Improved Profitability margins albeit thin PAT Margins
The PBILDT margin has improved and stood at 19.36% in FY21 when compared to 16.52% in FY20 on account of comparatively lower cost of materials(Sugar cane cost) when compared to FY20.However, Employee cost and selling expenses has seen an increase in FY21 when compared to FY20.The PAT margins also seen an improvement but remained thin at 1.69% in FY21 when compared to 1.02% in FY20. In 9MFY22, the PBILDT Margins stood at 27.80% with PAT Margin of 2.82% on account improved sales realisation.

Liquidity: Stretched
Liquidity position of the company remained stretched with high working capital utilisation of 93% in 12 months ended February 28,2022 and tightly matched accruals with repayment obligations for FY22. The company has availed GECL Loans in order to meet the operational liabilities and for purchase of inventory. The cash and cash equivalents stood at Rs.3.15 Cr as on December 31,2021

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Sugar

About the Company
Davangere Sugar Company Limited (DSCL) was incorporated in 1970 as a joint sector undertaking between Karnataka Agro Industries Corporation (KIAC), Karnataka State Industrial Investment and Development Corporation (KSIIDC) and Farmers. DSCL commenced commercial operations in October 1974. However, owing to continuous losses from operation, it was declared a sick unit in FY87. Subsequently, with the debt restructuring and support from financial institutions, DSCL came out of Board of Industrial and Financial Reconstruction in 1996. The present promoters acquired the shares owned by KIAC and KSIIDC and took over the management of DSCL in 1995. Shri. S S Ganesh takes care of the day to day functioning of the company. Initially, the company commenced operation with an installed capacity of 1250TCD [Sugar], subsequently, the sugar crushing capacity was enhanced to 4750TCD. DSCL also operates a multi fuel co-generation unit of 24.45MW. Currently, the company is undertaking installation of distillery unit of 63 KLPD capacity which is likely to commence operations in Q1FY23.
On March 19, 2021, company has been listed on BSE and current market cap of Rs. 90.2 crore

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-12-2021(Prov.)
Total operating income	203.29	147.81	76.92
PBILDT	33.58	28.61	21.38
PAT	2.07	2.50	2.17
Overall gearing (times)	2.14	1.96	NA
Interest coverage (times)	1.54	1.73	1.78

A: Audited; Prov.: Provisional || NA: Not available

Status of non-cooperation with previous CRA: Nil

Any other information: Not available

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	59.00	CARE BB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	13.22	CARE A4
Term Loan-Long Term		-	-	March 2028	105.35	CARE BB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	59.00	CARE BB-; Stable	-	1)CARE BB-; Stable (09-Mar-21) 2)CARE B; Stable (02-Jul-20) 3)CARE C; Stable; ISSUER NOT COOPERATING* (06-May-20)	1)CARE C; Stable (28-Jan-20)	1)CARE BB+; Stable (11-Jan-19)
2	Non-fund-based - ST-Letter of credit	ST	13.22	CARE A4	-	1)CARE A4 (09-Mar-21) 2)CARE A4 (02-Jul-20) 3)CARE A4; ISSUER NOT COOPERATING* (06-May-20)	1)CARE A4 (28-Jan-20)	1)CARE A4+ (11-Jan-19)
3	Term Loan-Long Term	LT	105.35	CARE BB-; Stable	-	1)CARE BB-; Stable (09-Mar-21) 2)CARE B; Stable (02-Jul-20) 3)CARE D; ISSUER NOT COOPERATING* (06-May-20)	1)CARE D (28-Jan-20)	1)CARE BB+; Stable (11-Jan-19)

LT: Long Term; ST: Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	Nil
B. Non-financial covenants	Nil

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple
3	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Himanshu Jain
Contact no.: 8123793395
Email ID: himanshu.jain@careedge.in

Relationship Contact
Name: Pradeep Kumar V
Contact no.: +91-98407 54521
Email ID: pradeep.kumar@careedge.in

About CARE Ratings Limited:
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