

MARCH 25, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES OF DAVANGERE SUGAR COMPANY LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities- Term Loan	48.71 (enhanced from Rs.62.56 crore)	CARE BBB- (Triple B Minus)	Reaffirmed
Long-term Bank Facilities- Fund Based	99.00	CARE BBB- (Triple B Minus)	Reaffirmed
Short-term Bank Facilities- Non-fund Based	87.72	CARE A3 (A Three)	Reaffirmed
Total Facilities	235.43 (Rupees Two Hundred Thirty Five crore and Forty Three lakhs only)		

Rating Rationale

The ratings continue to draw strength from the company's long track record and promoters' experience in the sugar industry and partially integrated operations with profitable co gen unit. However, the ratings are constrained by continuous losses from the sugar division, working capital intensive nature of operation, cyclical nature, agro-climatic risks and highly regulated nature of the industry. During FY15 (refers to the period April 1 to March 31), the company reported cash losses impacted by decline in sugar prices vis-à-vis high cost of production. However, performance improved in 9MFY16. The rating also takes note of the sustained improvement in sugar price realisation in recent months which is expected to help improve the cash flow and overall health of the company.

Going forward, the ability of DSCL to maintain stable earnings and achieve profitable operation of the sugar division would be the key rating sensitivities.

Background

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. The present promoters [Mr S Shivashankarappa and his family members] acquired the shares owned by KIAC and KSIIDC and took over the management of DSCL in 1995. DSCL is engaged in the manufacturing of sugar and its by-products with an installed capacity of 4,750 Tonnes Crushed per Day (TCD) and operates a multi-fuel co-generation unit with an installed capacity of 24.45MW as on December 31, 2015.

During FY15, the company registered an after tax loss of Rs.17.0 crore on a total operating income of Rs.177.9 crore. And as per the provisional results for 9MFY16 (refers to the period April 1 to December 31), the company registered profit before tax of Rs.2.1 crore on a total operating income of Rs.148.8 crore.

Analyst Contact

Name: Mr Karthik Raj K

Tel: 080-4165 4529

Cell: + 91 9980562244

Email: karthik.raj@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

CONTACT**Head Office Mumbai****Mr. Sanjay Kumar Agarwal**

Mobile: + 91 8108007676

E-mail: sanjay.agarwal@careratings.com

Mr. Amod Khanorkar

Mobile: + 91 9819084000

E-mail: amod.khanorkar@careratings.com

CREDIT ANALYSIS & RESEARCH LIMITED

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD**Mr. Mehul Pandya**32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015

Cell: +91-98242 56265

Tel: +91-79-4026 5656

E-mail: mehul.pandya@careratings.com

BENGALURU**Mr. Deepak Prajapati**Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.

Cell: +91-9099028864

Tel: +91-80-4115 0445, 4165 4529

E-mail: deepak.prajapati@careratings.com

CHANDIGARH**Mr. Sajan Goyal**2nd Floor, S.C.O. 196-197, Sector 34-A,
Chandigarh - 160 022.

Cell: +91 99888 05650

Tel: +91-172-5171 100 / 09

Email: sajan.goyal@careratings.com

CHENNAI**Mr. V Pradeep Kumar**Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.

Cell: +91 98407 54521

Tel: +91-44-2849 7812 / 0811

Email: pradeep.kumar@careratings.com

COIMBATORE**Mr. V Pradeep Kumar**

T-3, 3rd Floor, Manchester Square

Puliakulam Road, Coimbatore - 641 037.

Tel: +91-422-4332399 / 4502399

Email: pradeep.kumar@careratings.com

HYDERABAD**Mr. Saikat Roy**401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.

Cell : + 91 9820998779

Tel: +91-40-4010 2030

E-mail: saikat.roy@careratings.com

JAIPUR**Mr. Nikhil Soni**304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.

Cell: +91 - 95490 33222

Tel: +91-141-402 0213 / 14

E-mail: nikhil.soni@careratings.com

KOLKATA**Ms. Priti Agarwal**3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.

Cell: +91-98319 67110

Tel: +91-33- 4018 1600

E-mail: priti.agarwal@careratings.com

NEW DELHI**Ms. Swati Agrawal**13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.

Cell: +91-98117 45677

Tel: +91-11-4533 3200

E-mail: swati.agrawal@careratings.com

PUNE**Mr. Rahul Patni**9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.

Cell: +91-78754 33355

Tel: +91-20- 4000 9000

E-mail: rahul.patni@careratings.com

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