Davangere Sugar Company Limited

January 05, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities-Term Loan	36.73	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Negative (Triple B minus; Outlook: Negative)**
Long-term Bank Facilities-Fund-based	99.00	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Revised from CARE BBB-; Negative (Triple B minus; Outlook: Negative)**
Short-term Bank Facilities-Non-fund-based	87.72	**CARE A4+ (A Four Plus)**	**Revised from CARE A3 (A Three)**
Total Facilities	**223.45 (Rupees Two Hundred Twenty Three crore and Forty Five lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Davangere Sugar Company Limited (DSCL) factors in the moderation in financial performance in FY17 (refers to the period April 1 to March 31) impacted by low cane availability and weak recovery rates during the sugar season SS16-17 affecting both the sugar and power division's performance. Lower than anticipated cash accruals, as a result impacted company liquidity. Significant capex over the last three years have not yielded the expected returns for the company on account of challenging sugar market dynamics over the same period. The ratings continue to be constrained by working capital intensive nature of operation, cyclicality, agro-climatic risks and highly regulated nature of the industry.

However, the rating derives strength from DSCL's long track record and promoters' experience in the sugar industry, and partially integrated operations with cogen unit. Going forward, the ability of DSCL to improve the earning and liquidity profile and achieve profitable operation of the sugar division while maintaining the profitability of the power division would be the key rating sensitivities.

The revision in outlook reflects the expectation of improved cane availability in the region which will help the company improve its performance.

Detailed description of the key rating drivers

Experienced promoters and long track record of DSCL

DSCL has more than four 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 experienced professionals.

Moderation in operational performance in FY17

During FY17, 6,456 acres was under sugarcane cultivation as against 15,732 acres during FY16. The area under cultivation dropped, on account of diversification to alternative crops by farmers. This, along with the failing monsoons had impacted the availability and quality of cane. Resultantly, during FY17, 1.49 Lakh MT was crushed as against 5.39 Lakh MT of cane in FY16. The recovery rates had also gone down to 7.88% in FY17 as against 9.23% in FY16.

During FY18, the area under cultivation increased to 10,090 acres, following dedicated efforts by the company to bring more area under cultivation. Also, the management has been supplying high yield variety seeds to the farmers to improve the quality of the cane, resulting in improvement in recovery rates to 8.5 % in November and further to 10.5 % in December.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Company has operated its cogen plant for only 143 days in FY17 as against 314 days in FY16, and the realizations declined, as during October 2016 to December 2016, the company has been exporting power through IEX at lower realizations. However, with a PPA with BESCOM in place, the power realizations are expected to improve going forward.

Moderation in financial Performance

The company registered a net loss of Rs. 1.64 crore in FY17 as against a PAT of Rs. 10.18 crore in FY16. The moderation in performance was on account of subdued performance of both the sugar and power division.

Though there was a 76% drop in sugar production in y-o-y basis, the revenue from the sugar division was higher by 36 % supported by higher sale of sugar from inventory held and improving sales realization. Despite, the sugar division continued to report losses in FY17 also. While the sugar division has reported losses over the years, profits from power have lent stability to the earnings of the company. However during FY17, power division's performance was also impacted with lesser realisation and lower operating days. Resultantly, the cash accruals were lower than anticipated impacting the liquidity position of the company as evinced in the current ratio of 0.75x as on March 31, 2017

Cyclical and regulated nature of the industry

Cyclical nature of the sugar industry significantly impacts the operating performance and cash flow generation of the sugar companies. The raw material prices are regulated by the government. In addition to this, sale and distribution of by-products (molasses and power) are also regulated at different levels in different states. Integrated players are in a better position to counter cyclicality of the sugar business.

Working capital intensive nature of operation

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. On account of firming up of prices, the company had held inventory in March 2016 aiming to improve realizations, which it had sold in FY17, reflecting an improvement in operating cycle.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Rating Methodology-Manufacturing Companies

Financial ratios - Non-Financial sector

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. The present promoters acquired the shares owned by KIAC and KSIIDC and took over the management of DSCL in 1995. Mr S S Ganesh takes care of the day to day functioning of the company. As on December 31, 2016, the promoters hold 73.66% stake in DSCL.

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 24.45 MW.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total Operating income	184.90	173.57
PBILDT	39.15	23.60
PAT	10.18	(1.64)
Overall gearing (times)	2.21	1.66
Interest coverage (times)	2.12	1.73

A-Audited

Status of non-cooperation with previous CRA:

CRISIL, vide its press release dated April 07, 2011, has suspended the rating of CRISIL BB+/Stable; P4+ of DSCL as the company has not been providing any information on its operations and financials.

Any other information: Not Applicable

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	99.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	87.72	CARE A4+
Term Loan-Long Term	-	-	January 2021	36.73	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	99.00	CARE BB+; Stable	1)CARE BBB-; Negative (05-Apr-17)	-	1)CARE BBB- (25-Mar-16) 2)CARE BBB- (22-Apr-15)	1)CARE BBB- (04-Apr-14)
2.	Non-fund-based - ST-Letter of credit	ST	87.72	CARE A4+	1)CARE A3 (05-Apr-17)	-	1)CARE A3 (25-Mar-16) 2)CARE A3 (22-Apr-15)	1)CARE A3 (04-Apr-14)
3.	Term Loan-Long Term	LT	36.73	CARE BB+; Stable	1)CARE BBB-; Negative (05-Apr-17)	-	1)CARE BBB- (25-Mar-16) 2)CARE BBB- (22-Apr-15)	-

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