Davangere Sugar Company Limited

January 11, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	121.47	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	**Reaffirmed**
Short Term Bank Facilities	56.56	**CARE A4+ (A Four Plus)**	**Reaffirmed**
Total	**178.03 (Rupees One Hundred Seventy Eight crore and Three lakhs only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating of bank facilities of Davangere Sugar Company Limited (DSCL) continues to be constrained by its continuing moderate operational performance in FY18 (refers to the period April 1 to March 31) due to low cane availability in SS17-18 albeit improvement in crushing witnessed in 8MFY19 operational performance of the company. The ratings are also constrained by the continued losses reported by the company in FY18, working capital intensive nature of operations, cyclicality, agro climatic risks and regulated nature of industry. These rating weaknesses are partially offset by DSCL's long track record and promoters' experience in the sugar industry, and partially integrated operations with cogen unit.

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.

Detailed description of the key rating drivers

Key Rating Weaknesses

Moderate operational and financial performance in FY18 though improvement witnesses in 8MFY19

The company witnessed continued subdued operational performance in FY18 with plant being operational for only 95 days in FY18 and the company had crushed 1.41 lakh MT of sugarcane in FY18 (FY17: 1.49 lakh MT) as against its earlier crushing levels of 5.40 lakh MT. Company has operated its cogen plant for only 85 days in FY18 as against 134 days in FY17 and exported 29.86 mn units. Consequently, the company registered a net loss of Rs.8.61 crore in FY18 as against a net loss of Rs.1.64 crore in FY17. However, the operational performance of the company in 8MFY19 witnessed improvement on back of higher cane availability. The company has crushed 3.01 lakh MT till December 21, 2018.

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.

Stretched liquidity

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. The operating cycle deteriorated to 337 days in FY18 (FY17: 238 days) on account of holding inventory in expectation to realize at higher prices and high short term advances given for farmers and harvesting gangs. The average CC utilization of the company for 12 months ending December 2018 stands above 90% as confirmed by the bankers.

Key Rating Strengths

Long track record and experienced promoters

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 professionals having rich business experience in the operative industry. The company is also supported by the CFO Mr. Onkarappa who has three decades of experience.

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

Partial integrated nature of operations
DSCL has partially integrated operations and during SS17-18 the plant was operated at a power generation capacity of 24 MW. The company uses the power generated for captive consumption and the surplus power is sold to ESCOMS.

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. 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)	FY17 (A)	FY18 (A)
Total operating income	173.57	63.97
PBILDT	23.61	-2.07
PAT	-1.64	-8.61
Overall gearing (times)	1.66	2.22
Interest coverage (times)	1.73	NM

A: Audited

Status of non-cooperation with previous CRA: CRISIL, vide its press release dated April 07, 2011 has suspended the rating 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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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.

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	-	-	-	56.56	CARE A4+
Term Loan-Long Term	-	-	January 2021	22.47	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	99.00	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Jan-18) 2)CARE BBB-; Negative (05-Apr-17)	-	1)CARE BBB- (25-Mar-16) 2)CARE BBB- (22-Apr-15)
2.	Non-fund-based - ST-Letter of credit	ST	56.56	CARE A4+	-	1)CARE A4+ (05-Jan-18) 2)CARE A3 (05-Apr-17)	-	1)CARE A3 (25-Mar-16) 2)CARE A3 (22-Apr-15)
3.	Term Loan-Long Term	LT	22.47	CARE BB+; Stable	-	1)CARE BB+; Stable (05-Jan-18) 2)CARE BBB-; Negative (05-Apr-17)	-	1)CARE BBB- (25-Mar-16) 2)CARE BBB- (22-Apr-15)

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