Davangere Sugar Company Limited

January 28, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities – Term Loan	12.23* (22.47)	**CARE D (Single D))**	**Revised from CARE BB+; Stable [Double B Plus; Outlook: Stable]**
Long term bank facilities – Cash Credit	99.00 (99.00)	**CARE C (Single C)**	**Revised from CARE BB+; Stable [Double B Plus; Outlook: Stable]**
Short Term Bank Facilities	13.22* (56.56)	**CARE A4 (A Four)**	**Revised from CARE A4+ [A Four Plus]**
Total	**124.45 (Rupees One hundred twenty four crore and forty five lakhs only)**		

*Details of instruments/facilities in Annexure-1; *As per information from customer. CARE is yet to receive No Due Certificate from bankers*

Detailed Rationale & Key Rating Drivers

The revision in rating of bank facilities of Davangere Sugar Company Limited (DSCL) is on account of delay reported in servicing of rated facility as per term loan account statements submitted by company for the month of December, 2019. The delay was reported on account of cash flow mismatches during the month. The company's ratings are constrained by stretched liquidity position and operations in a cyclical and regulated industry.

The company's weaknesses are partially offset by the experience and track record of promoters and the improvement in operational and financial performance in FY19 and 9MFY20.

<u>Rating Sensitivities</u>

Positive Factors

- Continuous timely servicing of the term loan with no delays for period of more than 3 months.
- Sustained positive cash accruals in the near and medium term

Negative Factors

- Any government regulations which can affect the company's performance adversely.

Detailed description of the key rating drivers

Key Rating Weaknesses

Delay in servicing of term loan for the month of December 2019

The company had reported delay in servicing the debt obligations pertaining to two term loans during the month of December, 2019 and the same was on account of cash flow mismatches during the month. However the bankers have informed that there are no instances of LC devolvement or CC overdrawals.

Operations in a cyclical and regulated industry and stretched liquidity position

The cyclical nature of the sugar industry significantly impacts the operating performance and cash flow generation of DSCL. The company's inventory holding period was as high as 370 days in FY19 (FY18: 337 days) which resulted into a stretched operating cycle of 403 days (PY: 403 days). The current ratio of the company was 0.9 and quick ratio was 0.43 as on March 31, 2019 against 0.77 and 0.43 respectively as on March 31, 2018. The company's fund based utilisation was close to 100% for the 12 month ended November, 2019. 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.

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.

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

Improvement in operational performance in FY19 and 9MFY20

The company produced 21,804 metric tonnes of sugar in FY19 (PY: 6482 metric tonnes) at a recovery rate of 9.45% against 9.24% the previous year. The company also produced 53.65 million units power in FY19 against 21.22 million units in FY18. The company reported 33% growth in total operating income in FY19 wrt FY18 at a PBILDT margin of 27.65% (PY: -3.24%) and PAT of Rs. 3.22 Cr with a PAT margin of 2.83% (PY: -13.45%). TDGCA though remained stretched, improved from 92.02x as on March 31, 2018 to 17.59x as on March 31, 2019.

For 9MFY20, the company reported total operating income of Rs. 151.19 Cr at a PBILDT margin of 15.4% and a PBT of Rs. 1.24 Cr.

Liquidity: Poor

Liquidity position of the company is poor as reflected in near full utilization of its fund based working capital limit and cash flow mismatches leading to delays in debt servicing.

Analytical approach:

Standalone

Applicable Criteria

CARE's policy on Default Recognition

Criteria on assigning Outlook to Credit Ratings

Rating Methodology- Manufacturing Companies

Financial ratios - Non-Financial sector

About the Company

Davangere Sugar Company Limited 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. As on March 31, 2019, the promoters hold 59.54% stake in DSCL. The company has an installed sugar crushing capacity of 4750 TCD and a multi fuel co-generation unit of 24.5MW.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	63.97	113.96
PBILDT	-2.07	31.51
PAT	-8.61	3.22
Overall gearing (times)	2.22	2.43
Interest coverage (times)	-0.15	1.76

A: Audited

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

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 C; Stable
Non-fund-based - ST-Letter of credit	-	-	-	13.22	CARE A4
Term Loan-Long Term	-	-	January, 2021	12.23	CARE D

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	99.00	CARE C; Stable	-	1)CARE BB+; Stable (11-Jan-19)	1)CARE BB+; Stable (05-Jan-18) 2)CARE BBB-; Negative (05-Apr-17)	-
2.	Non-fund-based - ST-Letter of credit	ST	13.22	CARE A4	-	1)CARE A4+ (11-Jan-19)	1)CARE A4+ (05-Jan-18) 2)CARE A3 (05-Apr-17)	-
3.	Term Loan-Long Term	LT	12.23	CARE D	-	1)CARE BB+; Stable (11-Jan-19)	1)CARE BB+; Stable (05-Jan-18) 2)CARE BBB-; Negative (05-Apr-17)	-

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

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Current ratio >1.33	
Ii TOL/TNW<5.00	
B. Non financial covenants	
I	
Ii	
Iii	

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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