Davangere Sugar Company Limited

April 05, 2017

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**[1]	**Rating Action**
Long-term Bank Facilities-Term Loan	42.44 (reduced from Rs.48.71 crore)	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Reaffirmed
Long-term Bank Facilities-Fund-based	99.00	CARE BBB- (Triple B Minus; Outlook : Negative)	Reaffirmed
Short-term Bank Facilities-Non-fund-based	87.72	CARE A3 (A Three)	Reaffirmed
Total Facilities	**229.16 (Rupees Two Hundred Twenty Nine crore and Sixteen lakh only)**		

Details of facilities in Annexure I

Detailed Rationale & Key Rating Drivers

The ratings continue to draw strength from the Davangere Sugar Company Limited's (DSCL's) long track record and promoters' experience in the sugar industry, and partially integrated operations with profitable cogen unit. However, the ratings are constrained by continuous losses from the sugar division, working capital intensive nature of operation, cyclicality, agro-climatic risks and highly regulated nature of the industry. Though DSCL witnessed an improvement in financial performance during FY16 (refers to the period April 1 to March 31), by registering profits, (supported by the cogen unit and sugar inventory gain with the firming up of sugar prices), there was a decline in operational performance during 9MFY17, impacted by low cane availability and weak recovery rates during the current sugar season SS16-17.

Going forward, the ability of DSCL to maintain stable earnings and achieve profitable operation of the sugar division would be the key rating sensitivities. Conversely, deterioration in company's liquidity profile due to lower than anticipated cash accrual would weigh negatively on the rating.

Outlook: Negative

The negative outlook reflects the low cane availability and increasing cost of production which could affect the profitability of the company even as CARE expects firm sugar prices in the near term supported by decline in domestic stock levels.

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.

Stable operational performance in FY16 albeit deterioration in 9MFY17

During FY16, 15,732 acres was under sugarcane cultivation as against 12,698 acres during FY15. Despite higher area under sugar cultivation, the yield per acre had gone down resulting in only a marginal increase in sugar crushed. However, the recovery rate improved to 9.23% in FY16, on account of modernization of the sugar mill improving the operational efficiencies.

During FY17, the area under cultivation dropped to 9,152 acres, on account of diversification to alternative crops by farmers. In 9MFY17, the company had crushed only 149,633 MT sugar cane on account of lower availability of cane. The recovery rate also plunged lower to 7.87%.

The company has operated its cogen plant for nearly 314 days in FY16. During 9MFY17, the plant has been run only for 130 days, and the realizations fell, as during October 2016 to December 2016, the company has been exporting power through IEX at lower realizations. However, with a PPA with ESCOM in place, the power realizations are expected to improve going forward.

Stable financial Performance

During FY16 the company has witnessed an improvement in financial performance. The company registered a PAT of Rs.4.01 crore in FY16 as against a loss of Rs.17.02 crore in FY15, supported by the power division and sugar inventory gain.

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

During 9MFY17, the company had sold the sugar inventory at better realizations during 9MFY17. However, the power plant was operative only for 130 days during 9MFY17 resulting in lower profits during the period.

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.

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.

During FY16, DSCL registered a PAT of Rs.4.0 crore on a total operating income of Rs.184.89 crore as against a net loss of Rs.17.0 crore in a total operating income of Rs.177.9 crore. During 9MFY17, the company registered PBT of Rs.3.67 crore on a total operating income of Rs.139.9 crore.

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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 BBB-; Negative
Non-fund-based - ST-Letter of credit	-	-	-	87.72	CARE A3
Term Loan-Long-term	-	-	Jan 2023	42.44	CARE BBB-; Negative

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 BBB-; Negative	-	-	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 A3	-	-	1)CARE A3 (25-Mar-16) 2)CARE A3 (22-Apr-15)	1)CARE A3 (04-Apr-14)
3.	Term Loan-Long-term	LT	42.44	CARE BBB-; Negative	-	-	1)CARE BBB- (25-Mar-16) 2)CARE BBB- (22-Apr-15)	-

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