

## Davangere Sugar Company Limited

May 06, 2020

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term bank facilities – Term Loan	12.23	<b>CARE D; ISSUER NOT COOPERATING*</b> <b>(Single D; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
Long Term Bank Facilities (Fund Based)	99.00	<b>CARE C; Stable ISSUER NOT COOPERATING*</b> <b>(Single C; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
Short Term Bank Facilities (Non Fund Based)	13.22	<b>CARE A4; ISSUER NOT COOPERATING*</b> <b>(A Four; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
<b>Total</b>	<b>124.45</b> <b>(Rupees One hundred twenty four crore and forty five lakhs only)</b>		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

Davangere Sugar Company Limited (DSCL) has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE's rating on DSCL's bank facilities will now be denoted as **CARE D; ISSUER NOT COOPERATING\*** for its term loan facility, **CARE C; Stable ISSUER NOT COOPERATING\*** for long term fund based facilities and **CARE A4; ISSUER NOT COOPERATING\*** for the short term facilities.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

#### Detailed description of the key rating drivers

*At the time of last rating on January 28, 2020 the following were the rating weaknesses and strengths:*

#### 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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

\*Issuer did not cooperate; Based on best available information

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.

**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.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook and Credit watch to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology- Sugar 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.

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)	NM	1.76

A: Audited; NM- Not Meaningful

**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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-	-	-	-	13.22	CARE A4; ISSUER NOT

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Letter of credit					COOPERATING* Issuer not cooperating; Based on best available information
Term Loan-Long Term	-	-	November, 2020	12.23	CARE D; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

\*Issuer did not cooperate; Based on best available information

## 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	99.00	CARE C; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE C; Stable (28-Jan-20)	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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (28-Jan-20)	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; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE D (28-Jan-20)	1)CARE BB+; Stable (11-Jan-19)	1)CARE BB+; Stable (05-Jan-18) 2)CARE BBB-; Negative (05-Apr-17)

\*Issuer did not cooperate; Based on best available information

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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