Davangere Sugar Company Limited

March 05, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	165.21 (Reduced from 182.85)	CARE BB+; Stable	Reaffirmed
Short Term Bank Facilities	33.84 (Enhanced from 13.22)	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Davangere Sugar Company Limited (DSCL) factor in the expectation of lower crushing in current sugar season which is likely to impact sugar production. While this may impact sugar sales, it is likely to be cushioned by adequate inventory of B-Heavy molasses and maize for ethanol production and better realisation from distillery division. Overall, CARE Ratings Limited (CARE Ratings) estimates the company to maintain its FY25 sales in line with FY24. Ratings are constrained by moderate capital structure and coverage indictors, the company's presence in the cyclical and regulated sugar industry, and inherent agro-climatic risk.

Ratings' weaknesses are partially offset by stabilising the company's multi-feed ethanol plant, which can operate on grains in the off-season. Ratings also positively factor in the company's ability to sustain its scale of operations along with profitability margins. The rating also factors in long operational track record of the company and extensive promoters experience in sugar industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improving scale of operations above ₹300 crore with term debt (TD) /profit before depreciation, interest, and tax (PBDIT) less than 1.5x and interest coverage ratio (ICR) above 2.5x.

Negative factors

- Deteriorating overall gearing beyond 2.50x with TD/gross cash accruals (GCA) above 10x and ICR below 1.50x.

Analytical approach: Standalone

Outlook: Stable

'Stable' outlook reflects CARE Ratings' expectation that the company can maintain its stable business profile aided by distillery operations, while maintaining profitability margins.

Detailed description of key rating drivers:

Key weaknesses

Moderate capital structure and debt coverage indicators

Capital structure of the company stood moderated, with overall gearing stood at similar level at 1.71x as on March 31, 2024, when compared to 1.75x as on March 31,2023 (FY22: 3.05x). Slight improvement is on account of accretion of profit to the net worth. The company have high working capital requirements during the peak season to procure raw material or both sugar and distillery division. Interest coverage stood at 1.79x in FY24 when compared to 2.06x in FY23 due to increased interest expenses amid higher debt levels to procure higher inventory. Debt coverage indicators marked by Total debt /PBILDT and Total debt / GCA deteriorated and stood at 6.86x and 11.78x respectively in FY24 when compared to 4.64x and 8.85x in FY23 due to similar reason.

Elongation in operating cycle

The sugar industry is characterized by 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. Sugar industry being seasonal in nature has high working capital requirements during the peak season which is from November to April. The companies have high working capital requirements during the peak season to procure their primary raw material, i.e., sugarcane and manufacture sugar during this period. The average working capital utilization remained high at 93% for the trailing twelve months

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

ended December 31, 2024. Elongation in operating cycle in FY24 was due to increased inventory levels on account of increased storage of molasses and maize to maintain adequate stock for ethanol production during FY25.

Cyclical and regulated industry
The industry is cyclical and vulnerable to government policies for factors such as importance in Wholesale Price Index (WPI), as sugar is classified as an essential commodity. Governments (both Union and State) resort to regulations such as fixing raw material (sugarcane) prices under Fair & Remunerative Prices (FRP) and State Advised Prices (SAP). All these factors impact sugarcane cultivation patterns in the country, affecting profitability for sugar companies. India also continues to carry high levels of sugar inventory, largely due to controlled release mechanism followed by the Government. The company's performance can be impacted by disproportionate increase in cane price in a particular year. Furthermore, profitability remains vulnerable to Government's policies on exports, MSP, and remunerative ethanol prices. In addition, cyclicality in sugar production results in volatile sugar prices.

Inherent to agro-climactic risk
The sugar industry, directly depending on sugarcane crop and its yield, is susceptible to agro-climatic risks including pest and diseases. Climatic conditions, more specifically, monsoons influence operational parameters for a sugar entity, such as crushing period and sugar recovery levels.

Key strengths

Sustained profitability margin
While TOI of the company declined to Rs. 217 crore in FY24 as against Rs. 280 crore in FY23, PBDIT margin of the company sustained despite sugar export ban and high sugar cane procurement cost. PBILDT margin of the company improved from 19.93% in FY23 to 20.93% in FY24 and further to 26.28% in 9MFY25 mainly aided by better margins from distillery business. Ability of the company to sustain profitability margins in near term would be a key monitorable.

Long track record and experienced promoters
DSCL has more than five decades of track record in its present line of business. DSCL enjoys established relationship with farmers operating in the same region over the decades. The company's day-to-day operations are managed by SS Ganesh (MD), who is adequately supported by a group of professionals having rich business experience in the operative industry.

Liquidity: Adequate
Liquidity of the company is adequate marked by anticipated satisfactory cash accruals which would be sufficient to cover debt repayment obligations of the company. Ethanol division is expected to support profitability of the company. Company had cash and bank balance of Rs. 5.29 crore as on December 31, 2024. Working capital utilisation remained high at 93% during the 12 months ended December 31, 2024, as the company's operations are working capital intensive in nature and also due to raw material stock maintained by the company for ethanol division. The current ratio of the company stood satisfactory at 1.31x as on March 31, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Sugar
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Sugar

DSCL was incorporated in 1970 and acquired by current promoters in 1995. SS Ganesh takes care of the day-to-day functioning of the company.

The company commenced operation with an installed capacity of 1250TCD sugar, subsequently, its sugar crushing capacity was enhanced to 4750TCD. DSCL also operates a multi fuel co-generation unit of 24.45 MW. The company commenced operations of its distillery unit of 65 KLPD capacity in Q1FY23.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	December 31, 2024 (UA)
Total operating income	279.94	216.53	159.28
PBILDT	55.81	45.33	41.87
PAT	13.22	25.43	10.76
Overall gearing (times)	1.75	1.71	NA
Interest coverage (times)	2.06	1.79	1.75

A: Audited UA: Unaudited NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	84.00	CARE BB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	33.84	CARE A4+
Term Loan-Long Term	-	-	-	March 2028	81.21	CARE BB+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash Credit	LT	84.00	CARE BB+; Stable	-	1)CARE BB+; Stable (14-Mar-24)	1)CARE BB+; Stable (03-Feb-23)	1)CARE BB-; Stable (31-Mar-22)
2	Non-fund-based - ST-Letter of credit	ST	33.84	CARE A4+	-	1)CARE A4+ (14-Mar-24)	1)CARE A4+ (03-Feb-23)	1)CARE A4 (31-Mar-22)

3	Term Loan-Long Term	LT	81.21	CARE BB+; Stable	-	1)CARE BB+; Stable (14-Mar-24)	1)CARE BB+; Stable (03-Feb-23)	1)CARE BB-; Stable (31-Mar-22)

LT: Long term; ST: Short term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Letter of credit	Simple
3	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

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About us:
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