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ICRA reaffirms LB rating to bank facility of Lokmangal Sugar Ethanol and Co-generation Limited

ICRA has reaffirmed LB (pronounced as L B) rating to the term loan facility of Lokmangal Sugar Ethanol and Co-generation Limited (LSECIL)[†] aggregating to Rs. 88 crore¹.

The rating continues to be constrained by current high level of leveraging and pressures on liquidity resulting in irregularities in debt servicing in the recent past periods. The rating also factors in the risks inherent in the sugar business such as the inherent cyclicity, variations in agro-climatic conditions and changes in government policies on cane pricing and sugar release mechanism. The rating further takes into account the weak outlook on the sugar sector following a steep correction in the domestic sugar prices since the month of March 2010. Also, ICRA expects the sugar production for SY 2010-11 to outstrip domestic consumption which is likely to result in the sugar prices remaining under pressure in the near term. Also, ability of the company to negotiate sugarcane prices downwards remains critical from the credit perspective. The rating also factors in the financial risks arising out of corporate guarantee given to a group company, which is already facing liquidity stress. ICRA further notes that the already stretched capital structure is likely to be adversely impacted by company's firm part debt funded capital expenditure plan for expansion of its existing crushing capacity by 2500 TCD and co-generation facility by 16 MW. Also, ensuring adequate cane availability for the same would remain crucial to its profitability going forward. However, ICRA favourably factors in the improvement in the company's financial performance following improvement in the prices of sugar & by-products during FY 2010 and its presence in co-generation and ethanol production which negate the effect of sugar cyclicity to some extent.

Company Profile

Lokmangal Sugar Ethanol & Co-generation Industries Ltd. Ltd. (LSECIL) was incorporated in CY 2003 by Mr. Subhash Deshmukh and his family members who are the largest shareholders. The sugar plant, ethanol plant and co-generation facility are located in Solapur. LSECIL had setup a 30 KLPD ethanol plant in CY 2003 but it did not sell ethanol to oil PSUs because of capped price of Rs. 21.5 / litre on fuel ethanol. However, the sugar plant with installed capacity of 2500 TCD became operational from May 2008 onwards while co-generation facility with installed capacity of 15 MW became operational from April 2009 onwards.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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