

June 18, 2010

CARE REAFFIRMS RATINGS TO THE LONG-TERM & SHORT-TERM BANK FACILITIES OF THE OUDH SUGAR MILLS LTD.**Ratings**

Facilities	Amount (Rs. cr.)	Ratings ¹	Remarks
Long-term bank facilities	687.9	CARE BBB- (Triple B minus)	Reaffirmed
Short-term bank facilities	73.3	PR 3 (PR Three)	Reaffirmed
Long-term/short-term bank facilities	1.5	CARE BBB-/ PR3 (Triple B minus/PR three)	Reaffirmed

Ratings Rationale

The aforesaid ratings continue to derive strength from satisfactory and long track record of the company spanning of over seven decades, considerable experience of the promoters togetherwith their established standing in the sugar industry and the group support demonstrated to OSML, superior quality of raw materials available in the command area, forward integration initiatives into areas like distillery products & cogeneration of power fetching higher margin. The ratings are however, constrained by high level of Government control on the industry, impact of vagaries of nature, working capital intensiveness of the business, losses in FY07 and FY08 with cash loss in FY07, high volatility in the sugar industry, moderate financial position with high gearing ratios, low current ratio indicating liquidity pressure and deteriorating performance in H1FY10. Ability of the company to improve its revenues & profit in the government regulated environment and future prospects of sugar industry are the key rating sensitivities.

Company Profile

OSML, currently belonging to the renowned K.K. Birla group, is an over 75 years old company. OSML is engaged in production and sale of sugar & its by-products (molasses and bagasse), industrial spirit/ethanol, canning of food products and generation of power at plants spread out in four locations across U.P. and Bihar. Currently, the company is having four sugar mills with an aggregate crushing capacity of 28,700 tonnes crushed per day (TCD), two distilleries of 45 million litres per annum capacity of industrial alcohol/ethanol, one canning unit, and one power generation plant (8 MW) using bagasse, a by-product as the input.

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

On total income of Rs.559.1 crore, OSML earned a PAT (after defd. tax) of Rs.19.2 crore in FY09. Both long-term debt equity and overall gearing ratios as on Jun.30, 2009 improved and were moderate. Interest coverage was also satisfactory at 1.57 during FY09.

The company however, incurred net loss of Rs.11.9 crore on net sales of Rs.217.8 crore in H1FY10; although it earned cash profit of Rs.2.4 crore during the same period.

Analyst Contact

Name: Arindam Saha/Sumit Chakraborty

Tel # 033-22831800

Mobile # 92305 31485/98308 68107

Email: arindam.saha@careratings.com/ sumit.chakraborty@careratings.com

CARE 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.

Disclaimer

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CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra

Managing Director

Cell : +91-98204 16002

E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi

Dy. Managing Director

Cell : +91-98204 16001

E-mail: rajesh.mokashi@careratings.com

Mr. Ankur Sachdeva

Head - Business Development

Cell : +91-9819698985

E-mail: ankur.sachdeva@careratings.com

4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,
Sion (East), **Mumbai 400 022** Tel.: (022) 67543456 Fax: (022) 67543457

Website: www.careratings.com

OFFICES

<p>Mr.Mehul Pandya Regional Manager 32 TITANIUM Pralhadnagar Corporate Road, Satellite, Ahmedabad - 380 015. Tel – 079 4026 5656 Mobile - 98242 56265 E-mail: mehul.pandya@careratings.com</p>	<p>Mr.Sundara Vathanan Regional Manager Unit No. 8, I floor, Commander's PlaceNo. 6, Raja Ram Mohan Roy Road, Richmond Circle, Bangalore - 560 025. Tel – 080 2211 7140 Mobile – 98803 60878 E-mail: sundara.vathanan@careratings.com</p>
<p>Mr.Ashwini Jani Regional Manager Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai 600 002 Tel: 044 2849 7812/2849 0811 Mobile – 91766 47599 E-mail : ashwini.jani@careratings.com</p>	<p>Mr. Rahul Patni Regional Manager 401, Ashoka Scintilla 3-6-520, Himayat NagarHyderabad - 500 029 Tel – 040 _40102030 Mobile – 91600 04563 E-mail: rahul.patni@careratings.com</p>
<p>Mr. Sukanta Nag Regional Manager 3rd Floor, Prasad Chambers (Shagun Mall Building) 10A, Shakespeare Sarani Kolkata - 700 071. Tel – 033 2283 1800/1803 Mobile – 98311 70075 E- mail: sukanta.nag@careratings.com</p>	<p>Ms.Swati Agrawal Regional Manager 710 Surya Kiran, 19 K.G. Road, New Delhi - 110 001. Tel – 011 2331 8701/2371 6199 Mobile – 98117 45677 E-mail : swati.agrawal@careratings.com</p>