

## Samarth Dairy And Agro Products Private Limited

February 18, 2021

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	5.07	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Rating continues to remain under ISSUER NOT COOPERATING category and Revised from CARE B+; Stable; (Single B Plus; Outlook: Stable)
Total Facilities	5.07 (Rs. Five Crore and Seven Lakhs Only)		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE had, vide its press release dated November 22, 2019, placed the rating of Samarth Dairy and Agro Products Private Limited (SDPL) under the 'issuer non-cooperating' category as SDPL had failed to provide information for monitoring of the rating as agreed to in its Rating Agreement. SDPL continues to be non-cooperative despite repeated requests for submission of information through email letter dated January 20, 2021, February 2, 2021, February 4, 2021 and numerous phone calls. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

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

The revision in the rating assigned to the bank facilities of SDPL takes into account no due diligence conducted and non-availability of information due to non-cooperation by SDPL with CARE's efforts to undertake a review of the rating outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

### Detailed description of the key rating drivers

**At the time of last rating on November 22, 2019, the following were the rating weaknesses and strengths (Updated for the information available from Registrar of companies):**

#### Key Rating Weaknesses

**Small scale of operations with low profitability:** The total revenue from operations of the company remained modest at Rs.66.16 crore in FY19 (Audited) and total capital employed of Rs.11.93 crore as on March 31, 2019, thus limiting financial flexibility of the company in times of stress. Further, the profitability margins of the company remained low during the past three years ending FY19 with PBILDT margin remaining in the range of 2.19%-2.81% and PAT margin in the range of 0.12-0.20%.

**Project execution risk emanating from pending financial closure:** SDPL is planning to set up a new unit at the same premises which will result in increase in its processing capacity from 30,000 liters per day to 40,000 liters per day. The project was expected to commence its operations from February 2019.

**Leveraged capital structure and weak debt coverage indicators:** The capital structure of the company continues to remain leveraged with overall gearing ratio of 5.00x as on March 31, 2019 owing to high dependence on external borrowings. Moreover, due to high gearing level and low profitability, the debt coverage indicator stood weak during the period.

**Stretched liquidity position along with high working capital intensity:** The liquidity position of the company remains stretched as reflected by gross current asset days of 55 days during FY19 with funds mainly blocked in receivables.

**Risks associated with raw milk procurement, price volatility and seasonality associated:** SDPL procures milk primarily from local farmers and hence is exposed to the risk of quality of milk being procured. Furthermore, supply of milk is exposed to external risks like cattle diseases, and seasonality which results in volatile prices.

#### Key Rating Strengths

**Experienced promoters:** The promoters have an experience of around two and half decade in the business of milk processing. Being in the industry for so long has helped the promoters to gain adequate acumen about the business which aids in the smooth operations of SDPL.

**Operational synergies with group entity:** Sangam Multi-State Co. Op. Milk Union Limited (SMUL) is the group entity of SDPL, which is engaged in milk procuring business since 2013. SMUL is one of the major suppliers of SDPL contributing around 30% of the total purchase in FY18. Thus, SDPL is likely to benefit from business synergies from group concern operating in the same industry.

<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

**Reputed customer base albeit customer concentration:** The company has a revenue stream that is moderately concentrated with the top three customers contributing ~73% to the total sales in FY18 (provisional). Further, the company is associated with reputed customers like Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited, B. G. Chitale and Goa Dairy. Because of the reputed clientele, the credit risk remains low.

**Growing demand for milk and milk products:** In recent years, with the increasing consumer needs, the uses of milk have been expanding from traditional dairy products to new products with high added value. It is expected that this trend will lead to further growth in milk consumption.

**Analytical approach:** Standalone

**Applicable Criteria**

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

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

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

[CARE's Methodology for Manufacturing Sector Companies](#)

[CARE's Methodology for Short-term Instruments](#)

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

#### About the firm

SDPL is a Belgaum (Karnataka) based, Private Limited Company and was incorporated in the year 2012. SDPL is engaged in the business of processing of milk and milk based products viz. flavored milk, paneer, butter, ghee, curd and lassi and others facilities located at Belgaum, Karnataka.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	66.21	66.16
PBILDT	1.45	1.86
PAT	0.13	0.09
Overall gearing (times)	4.67	5.00
Interest coverage (times)	2.40	1.82

A: Audited

**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-Term Loan	-	-	February 2023	0.57	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	4.50	CARE B; Stable; ISSUER NOT COOPERATING*

\*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-Term Loan	LT	0.57	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (22-Nov-19)	1)CARE B+; Stable (22-Jun-18)	-
2.	Fund-based - LT-Cash Credit	LT	4.50	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (22-Nov-19)	1)CARE B+; Stable (22-Jun-18)	-

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

## Annexure 3: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

**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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### 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.

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