# S P Solvent Private Limited

December 12, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 57.72 | CARE BB; Stable; ISSUER NOT COOPERATING* | Downgraded from CARE BB+; Stable and moved to ISSUER NOT COOPERATING category |

Details of instruments/facilities in Annexure-1.
*Issuer did not cooperate; based on best available information.

## Rationale and key rating drivers

CARE Ratings Ltd. has been seeking information from S P Solvent Private Limited (SPSPL) to monitor the ratings vide e-mail communications/letters dated July 4, 2024, July 24, 2024, August 6, 2024, October 7, 2024, October 15, 2024, November 11, 2024, November 19, 2024, etc. among others and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd. has reviewed the rating on the basis of the best available information which, however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on S P Solvent Private Limited's bank facilities will now be denoted as **CARE BB; Stable; ISSUER NOT COOPERATING***.
**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 rating has been downgraded on account of non-availability of requisite information and no due-diligence conducted due to non-cooperation by S P Solvent Private Limited (SPSPL) with CARE Ratings Ltd.'s efforts to undertake a review of the rating outstanding. CARE Ratings Ltd. views information availability risk as a key factor in its assessment of credit risk. Further, the rating takes into account the constraints relating to company's modest scale of operations, low profitability margins, leveraged capital structure and weak debt coverage indicators. Further, the rating continues to remain constrained by risk associated with its susceptibility of profitability margins to commodity prices as well as government regulations and its presence in a highly fragmented and competitive nature of the industry. The rating, however, continues to draw comfort from the experienced management coupled with long track record of operations, stable demand outlook for edible oils and de-oiled cake and moderate operating cycle.

**Analytical approach:** Standalone

**Outlook:** Stable

## Detailed description of the key rating drivers:

At the time of last rating on October 18, 2023, the following were the rating strengths and weaknesses:
(updated based on limited information provided by the client)

### Key weaknesses

**Modest scale of operations:** SPSPL's scale of operations continue to remain modest as evident from total operating income (TOI) which stood at Rs.196.31 crore and gross cash accruals of Rs.3.41 crore respectively, during FY24 (FY refers to the period April 1 to March 31) as against Rs.188.50 crore and gross cash accruals of Rs.3.55 crore respectively, during FY23. The modest scale limits the company's financial flexibility in times of stress and deprives it of scale benefits.

**Low profitability margins, leveraged capital structure and weak debt coverage indicators:** The profitability of the company stood low for the last three financial years (FY22-FY24) on account of limited value addition along with its presence in the highly fragmented and competitive industry. The PBILDT margin of the company improved to 4.25% in FY24 as against 3.84% in FY23. Further, PAT margin stood at 0.80% in FY24.
The capital structure of the company stood leveraged as on the past three balance sheet dates ending (FY22-FY24) on account of higher reliance on external borrowings to fund the incremental working capital requirements of business against the tangible net worth base. The overall gearing ratio stood at 2.96x as on March 31, 2024 showing improvement from 3.10x as on March 31, 2023 on account of lower utilization of working capital borrowings as on balance sheet date. Further, on account of high debt levels and low profitability margins, the debt coverage indicators of the company as marked by interest coverage ratio and

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

total debt to GCA continue to remain weak at 1.56x and 19.58x respectively, in FY24 as against 1.70x and 17.16x respectively, in FY23.

**Susceptibility of profitability margins to commodity prices as well as government regulations:** SPSPL's profitability is highly susceptible by the movement in the prices of rice bran, soya bean seeds, de-oiled cake (DOC) and refined oil. The products being an agricultural commodity, its availability and prices to a certain extent are governed by the demand-supply dynamics prevalent in major crop growing nations, favorable weather conditions and prices of substitute edible oils. The domestic production of agro commodities, in turn, is dependent on various factors like vagaries of monsoon, crop pattern, area under cultivation as well as minimum support prices (MSP) and other incentives and policies offered by Government of India (GoI) leading to volatility in the same. Further, soya oil is also exposed to changes in duty structure policies by government on both crude and refined soya oil. Any sudden spurt in raw material prices which may not be passed on to its customers completely owing to company's presence in highly competitive industry, may adversely affect the profitability of the company.

**Highly fragmented and competitive nature of the industry:** The extraction business in India is highly fragmented due to presence of large number of unorganized players in the lower end of the bulk segment and presence of large and established players in the high end of market attributable to low entry barriers such as low capital and low technical requirements of the business. Due to high degree of fragmentation, small players hold very low bargaining power against both its customers as well as its suppliers. Further, most of the manufacturers offer similar products with little difference generating intense competition resulting in lower margins for most of the players. Furthermore, the availability of varieties of edible oils such as sunflower oil, palm oil, groundnut oil, rapeseed oil, sesame oil, etc. which can be substituted for one another also increase on the competition.

## Key strengths

**Experienced management coupled with long track record of operations:** SPSPL is a family run business. The company is currently being managed by Mr. Pawan Kumar Agarwal and Mr. Ankit Agarwal. Mr. Pawan Kumar Agarwal (Chairman & Managing Director) is a graduate by qualification and has an accumulated experience of more than four decades in extraction business through his association with this entity. He is well supported by his son Mr. Ankit Agarwal who is M.B.A. and holds an experience of nearly two decades in extraction business through his association with this entity. Further, they are also assisted by a team of qualified managerial personnel and technical team having relevant experience in their respective fields. The company is having a considerable track record in this business which has resulted in long term relationships with both the suppliers and customers.

**Stable demand outlook for edible oils and de-oiled cake:** The edible oil industry is expected to grow annually by 8-9%, with rising demand owing to increase in population, disposable incomes and growth of food processing sector. The consumption of edible oil in India has been rising steadily which can be attributed to various factors such as better standard of living, growth in demand for fried processed food products and branded packaged edible oil. India's annual per capita consumption is well below the world average; thus, signifying substantial growth potential for the edible oil industry. The Indian edible oil market continues to be underpenetrated, and given the positive macro and demographic fundamentals, it has a favourable demand growth outlook over the medium to long-term. Furthermore, India is a major participant in the export market for DOC and is one of the largest exporters of DOC from Asia. Moreover, there is a rising demand for DOC from the domestic poultry and cattle feed industry to meet the requirements for animal protein products.

**Moderate operating cycle:** The operating cycle of the company stood moderate as marked by 104 days for FY24. Being in the agro-commodity sector, the company is required to maintain adequate inventory of raw material for smooth running of its production processes and finished goods to ensure prompt delivery to its customers resulting in an average inventory holding period of around 102 days for FY24. Further, the company offers credit period of around one month to its customers resulting in an average collection period of 13 days for FY24. The company procures the raw materials on advance basis; however, from few of its suppliers it receives an average credit period of around 15 days.

## **Liquidity:** Adequate

The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations and has also free cash & bank balances which stood at Rs.1.02 crore as on March 31, 2024.

## Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Policy in respect of non-cooperation by issuers
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

## 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 | Edible Oil |

Rudrapur (Uttarakhand) based, S P Solvent Private Limited (SPSPL) was initially established as a partnership firm under the name "S P Solvent". Later in June, 2002, it was reconstituted as a private limited company and hence, the name changed to present one. The current directors of the company are namely; Mr. Pawan Kumar Agarwal, Mr. Ankit Agarwal, Mrs. Veena Agarwal, Mrs. Shruti Agarwal and Mrs. Pankhuri Gupta. The company is engaged in the extraction and refining of edible oils mainly of rice bran and soya bean. The company is engaged in the processing of rice bran for rice bran oil and de-oiled rice bran (DORB) and soya bean seeds for soya bean oil and soya bean de-oiled cake. The manufacturing facility of the company is located at Rudrapur, Uttarakhand having an installed capacity to process 250 MT per day of rice bran, 15 MT per day of soya bean seeds, and 100 MT per day for refining of edible oils. In addition to its extracted/refined products, the company is also engaged in the manufacturing of cattle/poultry feeds which is sold under its own brand name "SP" and has an installed capacity to manufacture 250 MT per day of cattle/poultry feeds.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) |
|---|---|---|
| Total operating income | 188.50 | 196.31 |
| PBILDT | 7.23 | 8.35 |
| PAT | 1.55 | 1.58 |
| Overall gearing (times) | 3.10 | 2.96 |
| Interest coverage (times) | 1.70 | 1.56 |

A: Audited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

### Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|---|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | | - | - | - | 52.41 | CARE BB; Stable; ISSUER NOT COOPERATING* |
| Fund-based - LT-Term Loan | | - | - | January, 2027 | 5.31 | CARE BB; Stable; ISSUER NOT COOPERATING* |

*Issuer did not cooperate; based on best available information.

## 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-Term Loan | LT | 5.31 | CARE BB; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BB+; Stable (18-Oct-23) | - | - |
| 2 | Fund-based - LT-Cash Credit | LT | 52.41 | CARE BB; Stable; ISSUER NOT COOPERATING* | - | 1)CARE BB+; Stable (18-Oct-23) | - | - |

*Issuer did not cooperate; based on best available information.
LT: Long term

**Annexure-3: Detailed explanation of the covenants of the rated instrument/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 | Fund-based - LT-Term Loan | Simple |

## Annexure-5: Lender details

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

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

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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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