

**Samarth Dairy And Agro Products Private Limited**

November 22, 2019

**Rating**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	5.07	<b>CARE B+;Stable;ISSUER NOT COOPERATING*</b> <b>(Single B Plus; Outlook:Stable; ISSUER NOT COOPERATING*)</b>	Issuer not cooperating; Based on best available information
<b>Total</b>	<b>5.07</b> <b>(Rs. Five Crore and Seven Lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

CARE has been seeking information from Samarth Dairy And Agro Products Private Limited (SDPL) to monitor the rating vide e-mail communications/letters dated May 31, 2019, September 06, 2019, September 11, 2019 and November 11, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the rating. 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. The rating on Samarth Dairy And Agro Products Private Limited bank facilities will now be denoted as **CARE B+; 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.**

The rating takes into account Company's small scale of operations with low profit margins, project execution risk emanating from pending financial closure, leveraged capital structure, moderate debt coverage indicators and customer concentration risk. The rating is further constrained by stretched liquidity position along with, risk associated with raw milk procurement, price volatility and seasonality associated with raw material. The ratings however, derive strength from the long experience of the promoters, reputed customer base, operational synergies with group entity operating in the same industry, and growing demand for milk and milk products.

**Detailed description of the key rating drivers**

*At the time of last rating on June 22, 2018 the following were the rating strengths and weaknesses (updated for the information available from Registrar of Companies filings):*

**Key Rating weakness**

**Small scale of operations with low profitability:** The total revenue from operations of the company remained modest at Rs.66.20 crore in FY18 (Audited) and total capital employed of Rs.10.73 crore as on March 31, 2018, 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 FY18 with PBILDT margin remaining in the range of 2-3.25% and PAT margin in the range of 0.10-0.70%.

**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 moderate debt coverage indicators:** The capital structure of the company remained leveraged with overall gearing ratio of 4.68x as on March 31, 2018 owing to high dependence on external borrowings. Moreover, due to high gearing level and low profitability, the debt coverage indicator stood moderate.

**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 39 days during FY18 with funds majorly blocked in receivables. Further, the utilization of bank credit lines remains on higher side leaving minor headroom for incremental working capital needs.

**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**

<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

**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.

**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 Companies](#)

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

#### About the Company

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 at its facilities located at Belgaum, Karnataka.

Brief Financials (Rs. crore)	FY17 (Audited)	FY18 (Audited)
Total operating income	53.19	66.20
PBILDT	1.23	1.38
PAT	0.06	0.13
Overall gearing (times)	3.60	4.68
Interest coverage (times)	2.43	2.56

**Status of non-cooperation with previous CRA:**

**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 the 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	0.57	CARE B+; Stable; ISSUER NOT COOPERATING*	-	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 (22-Jun-18)	-	-

\*Issuer did not cooperate; based on the best available information

**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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