

## Sudarshan Beopar Company Limited

March 22, 2019

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	16.00	CARE BB; Stable; ISSUER NOT COOPERATING* (Double B; Outlook: Stable; Issuer Not Cooperating*)	Issuer Not Cooperating; Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable) based on best available information
<b>Total</b>	<b>16.00</b> <b>(Rupees Sixteen Crore only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Sudarshan Beopar Company Limited (SBCL) to monitor the ratings vide e-mail communications/letters dated November 27, 2018, January 10, 2019, March 09, 2019, March 14, 2019 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

The rating on SBCL'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.**

### Detailed description of the key rating drivers

At the time of last rating in March, 30 2018 the following were the rating strengths and weaknesses:

#### Key Rating Weaknesses

**Small scale of operations with low profit margins:** The scale of operations of the company remained small marked by total operating income of Rs.48.57 crore (Rs.66.87 crore in FY16) with a PAT of Rs.0.33 crore (Rs.0.46 crore in FY16) in FY17. Further, the total operating income of the company witnessed decline in FY17 due to low capacity utilization owing to old aged machineries. Moreover, the company has reported turnover of Rs.40.22crore in 9MFY18. Further the total capital employed was also low at Rs.11.40 crore as on March 31, 2017. The small size restricts the financial flexibility of the company in times of stress and it suffers on account of lack of economies of scale. The profitability margins of the company remained low marked by PBILDT margin of 3.96% (3.27% in FY16) and PAT margin of 0.69% (0.69% in FY16) in FY17.

**Risk associated with expansion project:** SBCL is currently increasing its production capacity by installing new machines and upgrading its technology for flour mill & atta chakki with an aggregate cost of Rs.7.72 crore which will be financed by term loan of Rs.5.00 crore and promoter's contribution of Rs.2.72 crore. The financial closure for the debt portion of the project is yet to be tied up. However, the company has spent Rs.0.50 crore till February 28, 2018 funded by promoters' fund in the aforesaid project. The operation of the expanded capacity is likely to commence from Dec. 2018.

#### Volatile agro-commodity (flour) prices with linkages to vagaries of the monsoon and regulated nature of the industry:

SBCL is primarily engaged in the processing of wheat products under its roller mills. Wheat being an agricultural produce and staple food, its price is subject to intervention by the government. In the past, the prices of wheat have remained volatile mainly on account of the government policies in respect of Minimum Support Price (MSP) & controls on its exports. The MSP of wheat for 2017-18 is Rs.1735/quintal increased from Rs.1625/quintal in 2016-17. Further to be noted, the prices of wheat are also sensitive to seasonality, which is highly dependent on monsoon. Any volatility in the wheat prices will have an adverse impact on the performance of the flour mill.

**Working capital intensive nature of operation:** Wheat is primarily a Rabi crop in India i.e. its cultivation takes place in winter and the same is traded/ procured by flour millers throughout the year. Hence, the millers are required to carry high levels of raw material inventory in order to mitigate the raw material availability risk, resulting in relatively moderate inventory period of around two months. Further, wheat is mainly sourced on cash payment. Accordingly, the working capital intensity remained high as reflected through average utilization of working capital limits which stood at around 70% in the last twelve months ending February 28, 2018.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications

**Intensely competitive nature of the industry with presence of many unorganized players:** Flour milling industry is highly fragmented and competitive due to presence of many players operating in this sector owing to its low entry barriers, due to low capital and technological requirements. Uttar Pradesh and nearby states are a major wheat growing area with many flour mills operating in the area. High competition restricts the pricing flexibility of the industry participants and has a negative bearing on the profitability.

#### Key Rating Strengths

**Experienced promoters with long track record of operations:** SBCL is into flour milling business since 1979 and thus has long operational track record of around four decades. Being in the same line of business since long period, the promoters have built up established relationship with its clients and the company is deriving benefits out of this. Moreover, the key promoter Mr. Surendra Kumar Agarwal (aged, 58 years) has more than three decades of experience in the same line of business looks after the day to day operations of the company supported by other directors.

**Satisfactory demand outlook of the products and proximity to raw material sources:** Wheat based products, viz. Maida, Suji and Atta have large consumption across the country in the form of bakery products, cakes, biscuits and different types of food dishes in homes and restaurants. The demand has been driven by the rapidly changing food habits of the average Indian consumer, dictated by the lifestyle changes in the urban and semi-urban regions of the country. SBCL's unit has close proximity to local grain markets and major raw material procurement destinations. Further, West Bengal and nearby states are one of the major wheat producing area in India. Accordingly, SBCL has locational advantage in terms of proximity to raw material. This apart, the plant is located in the vicinity of industrial area of Uttar Pradesh, having good transportation facilities and other requirements like good supply of power, water etc.

**Comfortable capital structure with satisfactory debt coverage indicators:** The capital structure of the company improved with improvement in overall gearing ratio to 0.51x (1.08x as on March 31, 2016) as on March 31, 2017 on account accumulation of surplus into reserve and lower utilization of fund based limits as on account closing date. Furthermore, the debt coverage indicators of the company remained satisfactory marked by interest coverage of 1.97x and total debt to GCA of 5.27x in FY17. However, the interest coverage ratio deteriorated in FY17 due to higher decline in PBILDT levels vis-à-vis decline in interest expenses. However, the total debt to GCA improved in FY17 owing to low debt levels as on account closing date.

**Analytical approach:** Standalone

#### Applicable Criteria

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

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

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

[Rating Methodology-Manufacturing Companies](#)

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

#### About the Company

West Bengal based Sudarshan Beopar Company Limited (SBCL) incorporated in October 1979, was owned and controlled jointly by Jain and Agarwal Family. Initially the company was promoted by Shri Kashi Prasad Saraogi, Sudarshan Saraogi and Hazarimal Fatehpuria and later in the year 2008, the management was changed to Mr. Surendra Kumar Agarwal, Mr. Arun Kumar Maheshwari and Mr. Ankit Jain. SBCL is engaged in flour milling activities with its manufacturing facility located at Chandauli, Uttar Pradesh. The company manufactures **atta, maida, sooji and bran sells through wholesalers and dealers** with a processing capacity of 225 ton per day (TPD). The company is under process of modernization of existing manufacturing facilities along with expansion of capacity of roller mill from existing 225 TPD to 350 TPD.

The company is currently increasing its production capacity by installing new machines and upgrading its technology with an aggregate cost of Rs.7.72 crore which will be financed by term loan of Rs.5.00 crore and promoter's contribution of Rs.2.72 crore. The financial closure for the debt portion of the project is yet to be tied up. However, the company has spent Rs.0.50 crore till February 28, 2018 funded by promoters' fund in the aforesaid project. The operation of the expanded capacity is likely to commence from Dec. 2018.

Mr. Surendra Kumar Agarwal belongs to a business family. He has more than three decades of experience in the same line of business, looks after the day to day operations of the company. He is supported from other directors, Mr. Arun Kumar Maheshwari and Mr. Ankit Jain. Mr. Ankit Jain, director of the company is a commerce graduate and has also completed MBA from CARDIFF, U.K. He is actively involved in the family business and has been looking after production and legal matters of the company.

#### Liquidity position

Comment on liquidity position is not available as the company is not cooperating and also banker could not be contacted.

**Status of non-cooperation with previous CRA:** IND placed it under INC vide its press release dated April. 11, 2018 due to non-cooperation by the company.

**Any other information:** Not Applicable

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

**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:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	-*	5.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	11.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable on the basis of 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	5.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable on the basis of best available information	-	1)CARE BB+; Stable (30-Mar-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	11.00	CARE BB; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB+; Stable on the basis of best available information	-	1)CARE BB+; Stable (30-Mar-18)	-	-

\*Based on best available information

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