



Press Release

SBW Udyog Limited

April 02, 2021

Ratings

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Ratings | Rating Action |
|---------|----------------------------|--------------------|---|---------------|
| 1. | Long Term Bank Facilities | 55.53 | IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) | Assigned |
| 2. | Short Term Bank Facilities | 5.00 | IVR A3+ (IVR Single A Three Plus) | Assigned |
| | Total | 60.53 | | |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of SBW Udyog Limited comfort from its experienced promoters and long track record of operations. The rating also factors its diversified products and customer base, long standing presence and strong distribution network and comfortable capital structure with comfortable debt protection metrics. However, these rating strengths are partially offset by decline in operating income in FY20, working capital intensive nature of operations, susceptibility to volatility in raw material prices, labour intensive nature of operations and vulnerability of business to government policies, regulations, and growing health awareness.

Key Rating Sensitivities:

Upward Factor:

- ✓ Sizeable increase in scale of operations leading to improvement in profitability
- ✓ Improvement in the working capital cycle
- ✓ Reduction in financial exposure to group companies



Press Release

Downward factor:

- ✓ Decline in total operating income along with deterioration in operating margin
- ✓ Liability arising from Corporate Guarantee or bank Guarantee given to group companies.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters and long track record of company

SBWUL was established under the guidance of Mr Shyam Charan Gupta ,having an experience of more than 3 decades in manufacturing and trading of tobacco products. Mr Shyam Charan Gupta is assisted by his two sons Mr. Vidhup Agrahari and Mr. Vaibhav Agrahari and a team of professional and qualified directors to look after the over all operations of the company.

Diversified product and customer base

The company has diversified product portfolio, which reduces the vulnerability to the demand risks associated with a single product. SBWUL derives 74% of total operating income from sale of bidi, 9% from hospitality division, 9% from automotive division and rest from sale of diary & other products. Moreover, the company sells bidi under the brand “Shyam”,”Pintu” & aggarbattis under the brand “Baghban”,” Shyam” & diary products under “shyam” and distribution of SERVO lubricants of Indian Oil Corporation Limited. The company caters to customer from diversified industry and sectors reducing the dependency.

Long standing presence and strong distribution network

SBWUL is an organized player in the bidi industry and has created a significant brand presence in Uttar Pradesh, Madhya Pradesh ,Bihar & West Bengal. SBWUL sells the products through distributor’s. SBWUL established distribution network and brand loyalty of the end consumers helped maintain its strong market position in Uttar Pradesh and Madhya Pradesh. The company remains exposed to the risks associated with the geographical concentration of revenue.



Press Release

Comfortable capital structure with comfortable debt protection

The long term debt equity and overall gearing ratio stood comfortable at 0.23x and 0.53x as on March 31, 2020. Total indebtedness of the company as reflected by TOL/ANW improved from 0.81x as on March 31, 2019 to 0.75x as on March 31, 2020 driven by decrease in creditors and steady accretion of profit to net worth. The debt protections parameters are comfortable, marked by interest coverage ratio of 2.86x in FY20. The total debt/ GCA marginally improved yet remained high at 4.17year in FY20(4.66 year in FY19). Further during FY20, the company has earned a gross cash accruals Rs 10.10 crore as against its debt repayment obligation of Rs.2.44 crore. The company has utilised ~44% of working capital in 12 months ended Jan 2021 providing liquidity cushion.

Key Rating Weaknesses

Declining operating income in FY20

The total operating income of SBWUL declined by 5.23% from Rs.224.77 crore in FY19 to Rs.210.84 crore in FY20, due to the decline in sale from beedi division leading to decline in operating margin from 5.71% in FY19 to 5.09% in FY20. However the PBT margin improved from 3.23% in FY19 to 3.53% in FY20 due to increase in non operating income.

Working capital intensive nature of operations

Operations of the company are working capital intensive, marked by its high operating cycle of 90 days in FY20. The inventory holding period are high at around 88 days for FY20, primarily due to storage of tendu leaves. SBWL procures tendu leaves from state government by applying through tenders and holds sufficient inventory to avoid disruption in supply and manufacturing process.

Exposure to group companies

SBW Udyog Limited provides comfort to group companies in the form of investment, loans & advances and Guarantee given to them. SBWUL in total has invested Rs ~18.00 crore in its group companies. The company has invested Rs 17.72crore and extended a corporate Guarantee of Rs 33.30 crore in the group company "Shyam Enterprises" and holds 40% of its shareholding. Shyam Enterprises is engaged in milk processing 1,98,000 ltrs of milk per day.



Press Release

The main products of the dairy plant are skimmed milk powder, desi ghee, dairy mix, market milk.

Susceptibility to volatility in raw material prices and labour intensive nature of operations

SBWUL derives 74% of income from manufacturing and trading of bidi in FY20. Bidi manufacturing is dependent on the availability and prices variation of raw material i.e tendu leaves and tobacco and highly dependable on labour as high amount of manual labour is required to roll bidi. Therefore, the company's profit margins remain vulnerable to availability and price fluctuations of raw material and any kind of labour unrest or substantial increase in wages.

Business vulnerable to Government policies, regulations and growing health awareness

Being a health hazard, like other tobacco products, the beedi industry remains tightly regulated in terms of advertising and tax structure. India's tobacco product manufacturers need to comply with pictorial warnings on packages, which have been potentially affecting volume growth for the industry and shift in consumer preferences due to growing health awareness. Further, the procurement of major raw material i.e. tendu leaves is regulated by the Government.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

SBWUL has is adequate liquidity marked by 10.10 crore of cash accruals against the repayment of Rs 2.44 crore in FY20. The current ratio stood at 1.84x as on March 31,2020. The company had free cash balance of Rs 0.96 crore and fixed deposit of Rs 14.47 crore as on 31st Dec 2020. Moreover, the working capital limits remained moderately utilized at ~44%



Press Release

over the twelve months ended Jan 2021 which indicates liquidity buffer. The company has expected cash accrual in the range Rs 11.00 to 14.00 crore with repayment of Rs 5.00 to 6.00 crore in projected three year.

About the Entity

Incorporated in 1985, SBW Udyog Limited is primarily engaged in manufacturing, trading of bidi, sale of Servo lubricants of Indian Oil Corporation across districts and dairy products. SBWUL also gets revenue from hotel receipts of Kanya Shyam and sale of agarbatti and match box. SBW Udyog Ltd (SBWUL) was founded in 1973 as a partnership firm in the name of Shyam Bidi Works and reconstituted as a company in 1985 as Shyam Bidi Works Pvt. Ltd. under Companies Act 1956. The Entity was reconstituted as a limited company to facilitate smooth execution of operations.

Financials (Standalone):

| For the year ended*/As on | (Rs. crore) | |
|---------------------------------------|----------------|----------------|
| | 31-03-2019 | 31-03-2020 |
| | Audited | Audited |
| Total Operating Income | 224.77 | 210.84 |
| EBITDA | 12.84 | 10.74 |
| PAT | 7.39 | 7.65 |
| Total Debt | 41.28 | 42.07 |
| Tangible Net worth | 93.13 | 99.35 |
| EBITDA Margin (%) | 5.71 | 5.09 |
| PAT Margin (%) | 3.23 | 3.53 |
| Overall Gearing Ratio (x) on Book TNW | 0.44 | 0.42 |

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: NA

Any other information: Nil



Press Release

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|-------------------------------|--------------------------------|---|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Rating | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Cash Credit | Long Term | 32.50 | IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) | - | - | - |
| 2. | Term Loan | Long Term | 23.03 | IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) | - | - | - |
| 3. | Bank Guarantee | Short Term | 5.00 | IVR A3+ (IVR Single A Three Plus) | | | |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

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Press Release

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|---|------------------|------------------|---------------|------------------------------|---|
| Long Term Bank Facilities –Cash Credit | - | - | - | 32.50 | IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) |
| Long Term Bank Facilities –Term Loan | - | - | - | 23.03 | IVR BBB/Stable Outlook (IVR Triple B with Stable Outlook) |
| Short Term Bank Facilities -Bank Guarantee | - | - | - | 5.00 | IVR A3+ (IVR Single A Three Plus) |