

June 23, 2015

Facilities	Amount (Rs. Crore)	Ratings
Cash Credit	17.00	SMERA BBB (Assigned)
Bank Guarantee	2.00	SMERA A3+ (Assigned)

SMERA has assigned a long term rating of '**SMERA BBB**' (read as **SMERA triple B**) to the Rs.17.00 crore fund-based bank facility and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) to the Rs.2.00 crore non-fund based bank facility of Karnal Milk Foods Limited (KMFL). The outlook is '**Stable**'. The rating is supported by the company's comfortable financial risk profile, efficient working capital and experienced management. However, the rating is constrained by the company's exposure to customer concentration risk and intense competitive pressures.

KMFPL, established in 1991, is a Haryana-based company engaged in milk processing. The company's comfortable financial risk profile is reflected in the low gearing (debt-equity ratio) of 0.95 times as on March 31, 2014 and moderate interest coverage ratio of 2.43 times in FY2013-14 (refers to financial year, April 01 to March 31).

The company reported moderate operating profit margin of 3.01 per cent (provisional) in FY2014-15, against 3.02 per cent in FY2014. KMFL has a comfortable working capital cycle of ~56 days. The company is headed by the promoter, Mr. Gian Prakash Gupta, who has around three decades of experience in the milk processing business.

KMFL is exposed to customer concentration risk as sales to top three customers account for a significant portion (~45-50 per cent) of the total operating income. Besides, the company faces intense competition from other industry players such as Amul and Mother Dairy.

Outlook: Stable

SMERA believes that KMFL's outlook will remain stable owing to the extensive experience of the promoter. The outlook may be revised to 'Positive' if KMFL is able to scale up the operations with improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case of additional working capital borrowings leading to deterioration in the overall gearing or further weakening of profitability margins.

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About the Company

KMFL, established in 1991, is a Delhi-based company engaged in milk processing. The company is promoted by Mr. Gian Prakash Gupta.

KMFL reported net profit of Rs.0.98 crore on total income of Rs.145.51crore for FY2013–14, as compared with net profit of Rs.0.76 crore on total income of Rs.118.29 crore in FY2012–13. The company's net worth stood at Rs.17.07 crore as on March 31, 2014, as against Rs.16.09 crore a year earlier. KMFL registered revenue of Rs.160 crore (provisional) in FY2014–15.

Contact List:

Media/Business Development	Analytical Contacts	Rating Desk
Antony Jose Vice President – Business Development, Mid Corporate Tel: +91-22-6714 1191 Cell: +91 9820802479 Email : antony.jose@smera.in Web: www.smera.in	Parimal Thakker Associate Vice President – Corporate Ratings Tel: +91-11-41806663 Email: parimal.thakker@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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