

Karnal Milk Foods Limited: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	17.00	SMERA BBB-/Stable (Suspension Revoked; Rating Assigned)
Bank Guarantee*	1.00	SMERA A3+ (Suspension Revoked; Rating Assigned)
Letter of Credit*	1.00	SMERA A3+ (Assigned)

**Both way fully interchangeability between Bank Guarantee and Letter of Credit*

SMERA has revoked the suspension of rating on the Rs.18.00 crore bank facilities of Karnal Milk Foods Limited (KMFL) and assigned long term rating of **'SMERA BBB-' (read as SMERA triple B minus)** and short term rating of **'SMERA A3+' (read as SMERA A three plus)**. Further, SMERA has also assigned short term rating of **'SMERA A3+' (read as SMERA A three plus)** on the Rs.1.00 crore bank facility. The outlook is **'Stable'**.

SMERA had on August 29th, 2016 suspended the rating for lack of necessary information from KMFL. The company has now shared the requisite information, enabling SMERA to assign a rating.

The ratings draw support from the experienced management and long track record of operations. The ratings are also strengthened by the established market position and moderate financial risk profile. However, the ratings are constrained by the low profitability and decline in revenue in FY2016 over the previous year. The ratings also factor in the stretch in working capital cycle in FY2016 and decline in Debt service coverage ratio of the company. The ratings note the fragmented and competitive dairy industry and customer concentration risk.

KMFL was incorporated in 1991 by Mr. Gian Prakash Gupta (Chairman) and Mr. Vipin Gupta (Managing Director) who possess more than two decades of experience in the dairy industry.

KMFL is engaged in the processing of milk into butter, ghee, milk powder, whitener etc. The company markets its products under the 'Karan' brand name through its 150 odd distributors spread across Punjab, Delhi and Rajasthan. The products are also sold to FMCG companies such as Britannia, ITC, and Parle.

The moderate financial risk profile of the company is marked by debt-equity of 0.99 times in FY2015-16 as compared to 0.71 times in FY2014-15. Notwithstanding the decline in the interest coverage ratio, it stands comfortable at 2.13 times in FY2015-16 as compared to 2.59 times in FY2014-15. Moreover, the net cash accrual to total debts is at 0.09 times in FY2015-16 and deteriorated from 0.17 times in FY2014-15.

However, the net profitability margin has been thin at 0.45 percent in FY2015-16 as against 0.30 percent in FY2014-15. The operating income fell to Rs.126.78 crore in FY2015-16 from Rs.146.57 crore in FY2014-15 on account of limited demand from institutional customers.

KMFL has working capital intensive operations marked by GCA days of 85 with inventory days of 48 in FY2015-16 as against GCA days of 58 in FY2014-15. The DSCR of the company declined to 1.90 times in FY2015-16 from 2.24 times in FY2014-15. The average bank limit utilisation stands high at ~90 percent for the period May2016- October 2016.

However, the ratings remain constrained by the company's exposure to the competitive and fragmented dairy industry. SMERA also notes that the company is exposed to customer concentration risk as ~30-40 per cent of the revenue is from institutional players including Britannia, ITC, Parle and Nestle.

Outlook- Stable

SMERA believes that the outlook on KMFL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience and established market position. The outlook may be revised to 'Positive' if the company achieves more than envisaged sales and profitability while improving its working capital profile. Conversely, the outlook may be revised to 'Negative' in case of decline in profitability or large debt funded capex undertaken by the company.

Rating Sensitivity Factors

- Scaling-up of operations while improving profitability
- Efficient working capital management.

Criteria applied to arrive at the ratings:

- Manufacturing entities

About the Company

Incorporated in 1991, KMFL is a Delhi-based company engaged in the processing of milk into butter, ghee, milk powder, whitener etc and sold under the 'Karan' brand name. The company was promoted by Mr. Gian Prakash Gupta (Chairman) and Mr. Vipin Gupta (Managing Director).

For FY2015-16, KMFL reported profit after tax (PAT) of Rs.0.56 crore on operating income of Rs.12.78 crore as compared to PAT of Rs.0.44 crore in FY2014-15. The networth stands at Rs.18.28 crore as on March 31, 2016 as compared with Rs.17.71 crore a year earlier.

Rating History

Date	Facilities	Amount (Rs. Crore)	Ratings		Rating/ Outlook
			Long Term	Short Term	
29 August, 2016	Cash Credit	17.00	SMERA BBB (Suspended)	-	Stable
	Bank Guarantee	2.00	-	SMERA A3+ (Suspended)	-
23 June, 2015	Cash Credit	17.00	SMERA BBB (Assigned)	-	Stable
	Bank Guarantee	2.00	-	SMERA A3+ (Assigned)	-

Contacts:

Analytical	Business Development
Mr. Mohit Jain Vice President – Ratings Operations, Tel: +91-22-6714 1105 Cell: 9619911017 Email: mohit.jain@smera.in	Mr. Suman M Vice President – Business Development, Corporate Ratings Tel: +91-22-6714 1151 Cell: +91-9892306888 Email: suman.m@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, Dun & Bradstreet Information Services India Private Limited (D&B) and leading public and private sector banks in India. SMERA is registered with SEBI as a Credit Rating Agency and accredited by Reserve Bank of India. For more details, please visit www.smera.in

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.