

Press Release

S N Dairy Foods Private Limited (SNDFPL)

16 May, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.11.00Cr
Long Term Rating	SMERA BB-/Stable (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned the long term rating of '**SMERA BB- (read as SMERA double B minus)**' to the Rs.11.00 crore bank facilities of S N Dairy Foods Private Limited (SNDFPL). The outlook is '**Stable**'.

The Uttar Pradesh– based, S N Dairy Foods Private Limited (SNDFPL) was incorporated in 2013 by Mr. Ravikant Kumar Agrawal, Mr. Vinod Kumar Agarwal, Mr. Pradeep Kumar Agarwal and Mr. Sushil Kumar Agarwal. The company is engaged in the business of manufacturing of ghee, butter, skimmed milk powder (SMP), packaged milk, curd and yogurt etc. with the installed capacity for milk processing of 220.80 lakh litres per annum.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced promoters: The promoters, Mr. Ravikant Kumar Agrawal, Mr. Vinod Kumar Agarwal, Mr. Pradeep Kumar Agarwal and Mr. Sushil Kumar Agarwal possess an experience of around a decade in the dairy industry through their sister concern S N Milk Products Private Limited incorporated in 2007.

Efficient working capital management: The working capital cycle of the company is well managed marked by gross current asset (GCA) days of 78 days in FY2016 as compared to 206 days in FY2014-15, the improvement in GCA days is on account of faster realisation of debtors to 19 days in FY2015-16 as compared to 100 days in FY2014-15 and inventory days of 48 days in FY2015-16 as compared to 86 days of FY2014-15.

Conservative financial risk profile: The Company has maintained a conservative financial risk profile – marked by low gearing of 0.97 times on 31 March, 2016 as compared to 2.02 times on 31 March, 2015. The low gearing of 0.97 times as on 31 March, 2016 is eminent from total tangible networth of Rs.12.53 cr (includes subsidy received by the company of Rs2.00 cr and quasi equity of Rs.8.07 cr as subordinated to the bank's debt) as on 31 March 2016 as against the total debt of Rs.12.11 cr (includes long term loan of Rs5.15 cr and short term loan of 4.95 cr). The company's financial risk profile is also supported by a comfortable interest coverage ratio of 2.45 times in FY2016 vis-à-vis 2.22 times in FY2015 mainly on account of an increase in profitability metrics of the company.

The rating also factors in the increase in networth of the company to Rs. 12.53 cr on 31 March, 2016 (includes subsidy received by the company of Rs.2.00 cr and quasi equity of Rs.8.07 cr as subordinated to the bank's debt) as against Rs. 8.59 cr on 31 March, 2015 (includes quasi equity of Rs.6.29 crore as subordinated to the bank's debt). The increase in networth is attributable to the periodic infusion of unsecured loan by the promoters and retention of profit into the business. SMERA expects SNDFPL's debt protection metrics and capital structure to remain prudent on account of its ability to maintain its profitability margins over the medium term.

Weaknesses:

Competitive and fragmented nature of industry: The company faces stiff competition from several organised players presence in the dairy industry, the competition further gets intensified on account of limited entry barrier and presence of several unorganised players operating in a highly competitive industry.

Seasonal nature of operations: The company is operating in the dairy industry and hence exposed to the fluctuation and mismatch in demand and supply of milk. SMERA believes that the strengthening of procurement channel by the company to meet the high demand will improve the business risk profile of the company.

Analytical approach: SMERA has considered the standalone financial and business risk profile of the company.

Applicable Criteria

- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that the outlook for SNDFPL will remain 'Stable' over the medium term on account of experienced promoters and conservative financial risk profile of the company. The outlook may be revised to 'Positive' if the firm achieves more than expected revenue while improving its profit margins and debt protection matrices. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and profitability and/or any high debt funded capex leading to deterioration in capital structure.

About the rated entity

In FY2015-16 the company has achieved the operating income of Rs.52.55 crore in with the Profit after Tax (PAT) of 0.17 crore as compared to the operating income of Rs. 25.50 crore with PAT of 0.14 cr a year earlier. The Networth of the firm stands Rs.12.53 crore (includes quasi equity of Rs. 8.07 crore) in FY2015-16 as compared to 8.59 crore (includes quasi equity of Rs. 6.29 crore) a year earlier.

Status of non-cooperation with previous CRA (if applicable): CARE Ratings in its press release dated 07th April, 2017 had inter-alia mentioned the following: 'CARE has been seeking information from S.N. Dairy Foods Private Limited to monitor the rating(s) vide e-mail communications dated March 27, 2017, March 25, 2017, March 24, 2017 and numerous phone calls. However, despite our repeated requests, the company 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 S.N. Dairy Foods Private Limited's bank facilities and will now be denoted as CARE BB-; ISSUER NOT COOPERATING.'

Any other information: None

Rating History for the last three years:

Name of Instrument /Facilities	FY 2017			FY2016		FY 2015		FY 2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	5.00	SMERA BB-/Stable (Assigned)	-	-	-	-	-	-
Term Loan	L T	6.00	SMERA BB-/Stable (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	5.00	SMERA BB-/Stable (Assigned)
Term Loan	N.A	N.A	March 2019	6.00	SMERA BB-/Stable (Assigned)

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

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ABOUT SMERA

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