

Press Release

Shree Warana Sahakari Dugh Utpadak Prakriya Sangh Limited

11 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 310.25 Cr.
Long Term Rating	SMERA BBB+/ Outlook: Stable
Short Term Rating	SMERA A2

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating to '**SMERA BBB+** (read as SMERA triple B plus) and short term rating to '**SMERA A2**' (read as SMERA A Two) on the Rs. 310.25 crore bank facilities of Shree Warana Sahakari Dugh Utpadak Prakriya Sangh Limited (SWS). The outlook is '**Stable**'.

Shree Warana Sahakari Dugh Utpadak Prakriya Sangh Limited (SWS), established in 1968 is a co-operative society. It is engaged in milk processing and production of dairy products. SWS has 7 lac litres per day of milk processing capacity with multi product capabilities. It offers wide range of products like pasteurized milk, tonned milk, flavoured milk, double toned milk, sweetened condensed milk, UHT milk, yoghurt, ghee, cheese, paneer, skimmed milk powder, butter milk, cream, shrikhand etc. The products are distributed under the brand name of 'Warana'. SWS mainly has its presence in Maharashtra, Telangana, Andhra Pradesh, Karnataka and Goa. It has 2 processing units in Kolhapur and 1 in Vashi (Navi Mumbai).

SWS also undertakes work for Mondelez India Foods Limited (formerly known as Cadbury India Ltd) for the production of cocoa powder and bournvita. Further, it also takes ice cream processing contracts from Mother Dairy.

The society has a distribution centre in Dubai named as Warana House to distribute milk, skimmed milk powder and ghee to Gulf countries.

Key rating drivers

Strengths

Established player in dairy products with a strong regional presence: SWS is operating in dairy business for almost 5 decades led by Dr. Vinay Kore. The promoter has around three decades of experience in the dairy activity. The society has an established procurement and distribution network for milk and milk products. It has a network of over 5 lac farmers for procurement of milk across 450 villages in Maharashtra. SWS has over 2000 collection centers and 11 chilling centers.

SMERA believes that SWS's business risk profile will be supported by its established position in Maharashtra, Telangana, Andhra Pradesh, Karnataka and Goa, strong brand presence and high demand prospects due to increasing consumption of milk products.

Comfortable financial risk profile: The financial risk profile of the company is comfortable marked by moderate networth, modest gearing and comfortable debt protection metrics. The net worth levels of the company stood at Rs. 137.41 crore as on 31 March, 2017 compared to Rs. 122.45 crore as on 31 March, 2016. The networth is moderate which is on account of the business model of co-operative society wherein the excess profit is distributed among members. The gearing stood at 1.95 times as on 31 March, 2017 as against 2.34 times as on 31 March, 2016. The total debt of Rs. 267.75 crore comprises term loan of Rs. 129.88 crore and working capital borrowing of Rs. 137.87 crore as on 31 March, 2017. The interest coverage ratio (ICR) stood at 1.34 times in FY2017 as against 1.18 times in FY2016. The debt service coverage ratio (DSCR) stood at 1.10 times in FY2017 as against 0.21 times in FY2016. The improvement is in line with improvement in profitability in FY2017. The total outside liabilities to tangible networth (TOL/TNW) stood at 3.16 times in FY2017 and 3.20 times in FY2016. However, the society has demonstrated strong financial flexibility, driven by control over the effective price paid to members and healthy liquidity to fund financial obligation.

Weaknesses

Susceptibility to changes in government regulations and environmental conditions: SWS, like all dairy players, is susceptible to government regulations such as ban on skimmed milk powder (SMP) exports and removal of export incentives. Furthermore, it is susceptible to failure in milk production because of external factors such as cattle diseases.

Highly competitive industry: The dairy industry is highly fragmented with large number of unorganized players; also the company faces competition from some of the big players such as Amul, Parag, Karnataka Milk Federation, etc. in the organized segment. While the dairy segment has attracted significant PE investments in the past which has supported the companies in the segment but has also increased the competitive intensity amongst the players. This limits the society's ability to significantly improve the margins. Also, ensuring competitive remuneration to the farmers for procurement of milk would be a key sensitivity for maintaining a steady supply chain.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Shree Warana Sahakari Dugh Utpadak Prakriya Sangh Limited to arrive at the rating.

Outlook – Stable

SMERA believes that SWS will continue to benefit over the medium term owing to its established presence in dairy industry, supported by strong procurement capability and distribution network. The outlook may be revised to 'Positive' if company's scale of operations increases substantially, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if company fails to achieve the scalability amidst intensifying competition in the area of operation or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded capex or working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	672.57	667.05	751.81
EBITDA	Rs. Cr.	40.97	39.77	39.10
PAT	Rs. Cr.	4.69	0.11	0.10
EBITDA Margin	(%)	6.09	5.96	5.20
PAT Margin	(%)	0.70	0.02	0.01
ROCE	(%)	9.05	8.59	16.59
Total Debt/Tangible Net Worth	Times	1.95	2.34	2.73
PBDIT/Interest	Times	1.34	1.18	1.20
Total Debt/PBDIT	Times	6.22	7.00	7.39
Gross Current Assets (Days)	Days	148	129	104

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smerra.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Status of non-cooperation with previous CRA (if applicable):

None

Rating History (Upto last three years)

Not Applicable

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	140.00	SMERA BBB+ / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	25.00	SMERA BBB+ / Stable(Assigned)
Term Loans	Not Applicable	Not Applicable	Not Applicable	119.00	SMERA BBB+ / Stable (Assigned)
Proposed Term Loans	Not Applicable	Not Applicable	Not Applicable	11.25	SMERA BBB+ / Stable (Assigned)

Short Term Loans	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A2 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A2 (Assigned)

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ABOUT SMERA

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