

Press Release

Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited

July 05, 2018

Rating Upgraded and Assigned



Total Bank Facilities Rated*	Rs. 320.25 Cr. (Enhanced from Rs. 310.25 Cr.)
Long Term Rating	ACUITE A- / Outlook: Stable (upgraded from ACUITE BBB+/Stable)
Short Term Rating	ACUITE A2+ (upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

ACUITE has upgraded the long term rating to '**ACUITE A-**' (read as **ACUITE A minus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and short term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs. 310.25 crore bank facilities of Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited (SWS). The outlook is '**Stable**'.

Further ACUITE has assigned long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) on the Rs. 10.00 crore bank facilities of Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited (SWS).

The rating revision is in view of higher than expected growth in revenues and improvement in profitability margins during FY2018 which is expected to be sustained over near to medium term. Acuite expects that SWS will be able to exhibit improved operating metrics on the back of its focus on value added products like flavoured milk, ghee, butter milk, white butter, etc. The contribution of these value added products to SWS's overall revenues is likely to increase over the next 1-2 years.

Shree Warana Sahakari Dudh 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, toned 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 job 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.

Acuite 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 SWS is comfortable marked by moderate networth, modest gearing and comfortable debt protection metrics. The net worth stood at Rs. 169.54 crore (Provisional) as on 31 March, 2018 as compared to Rs. 137.41 crore as on 31 March, 2017. The business model of a co-operative society restricts the ability to scale up the networth significantly since any major surplus is distributed among the members by way of higher procurement prices. Hence, the networth of SWS will continue to grow at a moderate pace notwithstanding the higher expected profitability from its operations.

The gearing stood at 1.47 times (Provisional) as on 31 March, 2018 as against 2.07 times as on 31 March, 2017. The total debt of Rs. 249.95 crore (Provisional) comprises term loan outstanding's of Rs. 110.06 crore, Rs. 5.35 crore of debentures and working capital borrowing of Rs. 134.54 crore as on 31 March, 2017. The net cash accruals stood at Rs. 19.39 crore for FY2018 indicating net cash accruals to total debt (NCA/TD) of 0.08 times (0.04 times for FY2017).

The interest coverage ratio (ICR) stood at 1.66 times (Provisional) in FY2018 as against 1.34 times in FY2017. The debt service coverage ratio (DSCR) stood at 1.04 times (Provisional) in FY2018 which is expected to improve in FY2019 on the back of improved margins and accruals. SWS is also exploring options to put a cap on the distribution of surplus amongst its members, which is expected to result in higher surplus being retained in SWS.

The total outside liabilities to tangible networth (TOL/TNW) stood at 2.33 times (Provisional) in FY2018 and 3.16 times in FY2017. Besides debt SWS is also supported by non-current liabilities of Rs. 116.02 crore which includes long term deposits from the members/channel partners. This will constitute a steady long term support to SWS.

Acuite believes that SWS will continue to exhibit a comfortable financial risk profile on the back of its established position in the dairy industry and focus on higher value added products which will be the key margin drivers over the near to medium term.

Weaknesses

- **Susceptibility to changes in government regulations and environmental conditions**

SWS, like all dairy players, is susceptible to government regulations such as restrictions on skimmed milk powder (SMP) exports and removal of export incentives. The volatility in SMP prices will also have a bearing on the profitability of domestic milk players. Furthermore, the operating performance of these players is also susceptible to events like declining milk production due to factors like scanty rainfall or outbreak of cattle related diseases.

- **Susceptibility of the operating performance to the procurement and distribution efficiency amidst growing competition**

SWS's efficiencies stem from its ability to maintain a steady supply of milk from its members and farmers in its area of operations. The ability to develop and sustain relationships with these milk vendors is critical for the success of any dairy. The existing well entrenched players have to protect their vendor base from migrating to other players through various measures like paying market linked procurement prices and offering other facilities like loans and advances to these farmers. Besides the competition for milk procurement the development of distribution channels is also important. The aggressive marketing by existing players Amul, Parag, Prabhat Dairy, Karnataka Milk Federation, etc. has increased the competitive intensity in various markets. Hence, the players like SWS have to invest significantly in distribution networks and marketing campaigns. The competition from growing organised sector and unorganised sector is expected to continue to impinge on the performance of the existing players. The private sector players have been significant investments across the value chain which has helped in improving their market share.

Acuite believes that SWS's ability to significantly scale up its revenues and accruals will largely depend on to maintain efficient and steady milk supply and a well-executed marketing and distribution strategy with a focus on higher value added products.

Analytical Approach

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

Outlook: Stable

Acuite 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 SWS is able to demonstrate significant and sustainable net cash accruals and debt indicators. Conversely, the outlook may be revised to 'Negative' if SWS's revenues or margins are significantly lower than expected or its debt protection indicators deteriorate because of factors like higher-than-expected increase in debt-funded capex.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	785.25	672.57	667.05	751.81
EBITDA	Rs. Cr.	48.08	40.97	39.77	39.10
PAT	Rs. Cr.	12.82	4.69	0.11	0.10
EBITDA Margin	(%)	6.12	6.09	5.96	5.20
PAT Margin	(%)	1.63	0.70	0.02	0.01
ROCE	(%)	10.06	8.78	8.52	16.59
Total Debt/Tangible Net Worth	Times	1.47	2.07	2.40	2.73
PBDIT/Interest	Times	1.66	1.34	1.18	1.20
Total Debt/PBDIT	Times	5.11	6.63	7.17	7.39
Gross Current Assets (Days)	Days	116	148	129	104

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
11-Jan-18	Cash Credit	Long term	140.00	ACUITE BBB+/Stable (Assigned)
	Proposed Cash Credit	Long term	25.00	ACUITE BBB+/Stable (Assigned)

	Term Loans	Long term	119.00	ACUITE BBB+/Stable (Assigned)
	Proposed Term Loans	Long term	11.25	ACUITE BBB+/Stable (Assigned)
	Short Term Loan	Short Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Assigned)

***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	ACUITE A-/Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	51.00	ACUITE A-/Stable (Upgraded & Assigned)
Term loans	Not Applicable	Not Applicable	Not Applicable	103.00	ACUITE A-/Stable (Upgraded)
Proposed Term loans	Not Applicable	Not Applicable	Not Applicable	11.25	ACUITE A-/Stable (Upgraded)
Short Term loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Upgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Upgraded)

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About Acuité Ratings & Research:

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