

Press Release

Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited

September 26, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 320.25 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable
Short Term Rating	ACUITE A2+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.320.25 crore bank facilities of SHREE WARANA SAHAKARI DUDH UTPADAK PRAKRIYA SANGH LIMITED (SWS). The outlook is '**Stable**'.

Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited (SWS), established in 1968, is a cooperative 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 such as pasteurized milk, toned milk, flavoured milk, and double toned milk, sweetened condensed milk, UHT milk, yoghurt, ghee, cheese, paneer, skimmed milk powder, buttermilk, cream, shrikhand, among others. 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SWS to arrive at this rating.

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.

Acuité 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.

• Moderate financial risk profile

The financial risk profile of SWS is moderate marked by moderate network, modest gearing and debt protection metrics. The net worth stood at Rs. 203.44 crore as on 31 March, 2019 as compared to Rs. 183.24 crore as on 31 March, 2018. The business model of a cooperative society restricts the ability to scale up the network 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 1.23 times as on 31 March, 2019 as against 1.54 times as on 31 March, 2018. The total debt of Rs. 250.78 crore comprises term loan outstanding's of Rs. 105.86 crore, Rs. 2.50 crore of debentures, unsecured loans of Rs. 1.99 crore and working capital borrowing of Rs. 143.26 crore as on 31 March, 2019. The net cash accruals stood at Rs. 12.84 crore for FY2019 indicating net cash accruals to total debt (NCA/TD) of 0.05 times (0.05 times for FY2018).

The interest coverage ratio (ICR) stood at 1.44 times in FY2019 as against 1.43 times in FY2018. The debt service coverage ratio (DSCR) stood at 0.81 times in FY2019, which is expected to improve in FY2020 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 1.88 times in FY2019 and 2.15 times in FY2018. Besides, debt SWS is also supported by non-current liabilities of Rs. 96.51 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 moderate 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 such as 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, 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 made 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.

Rating Sensitivities

- Improvement in profitability margin of around 5.5-6 per cent over the medium term.
- Withdrawal of unsecured loans leading to deterioration in liquidity position.
- High debt funded capex plan leading to deterioration in debt protection indicators.

Material Covenants:

None

Liquidity Position

SWS has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The society generated cash accruals of Rs.6.33 crore – Rs. 13.55 crore during the last four years through 2016-19, while its maturing debt obligations were in the similar range over the same period. The firm's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 116 in FY2019. This has led to reliance on working capital borrowings, the cash credit limit of the society remains utilised at ~92.00 per cent during the last 12 months' period ended August 2019. The society maintains unencumbered cash and bank balances of Rs.7.33 crore as on March 31, 2019. The current ratio of the society stood healthy at 2.75 times as on March 31, 2019. The society is likely to incur capex of Rs.49.00 crore- Rs.50.00 crore over the medium, which is likely to be funded by equity and external borrowing in the ratio of 25:75. Acuite believes that the liquidity of the society is likely to remain adequate over the medium term on account of adequate cash accrual to repay its debt over the medium term.

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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	823.78	786.37	672.57
EBITDA	Rs. Cr.	41.18	43.75	40.97
PAT	Rs. Cr.	5.15	7.17	4.69
EBITDA Margin	(%)	5.00	5.56	6.09
PAT Margin	(%)	0.63	0.91	0.70
ROCE	(%)	7.52	8.64	8.78
Total Debt/Tangible Net Worth	Times	1.23	1.54	2.07
PBDIT/Interest	Times	1.44	1.43	1.34
Total Debt/PBDIT	Times	5.93	6.31	6.63
Gross Current Assets (Days)	Days	116	120	148

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

Not applicable

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
05-Jul-2018	Cash Credit	Long Term	140.00	ACUITE A-/Stable (Upgraded)
	Proposed Cash Credit	Long Term	51.00	ACUITE A-/Stable (Assigned)
	Term Loan	Long Term	103.00	ACUITE A-/Stable (Upgraded)
	Proposed Term Loan	Long Term	11.25	ACUITE A-/Stable (Upgraded)
	Short Term Loan	Short Term	5.00	ACUITE A2+ (Upgraded)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Upgraded)
11-Jan-2018	Cash Credit	Long Term	140.00	ACUITE BBB+/Stable (Assigned)
	Proposed Cash Credit	Long Term	25.00	ACUITE BBB+/Stable (Assigned)
	Term Loan	Long Term	119.00	ACUITE BBB+/Stable (Assigned)
	Proposed Term Loan	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	165.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	75.00	ACUITE A-/Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	37.50	ACUITE A-/Stable (Reaffirmed)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	27.75	ACUITE A2+ (Reaffirmed)

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About Acuité Ratings & Research:

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