

Press Release

Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited

December 17, 2020



Rating Reaffirmed and Assigned

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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating to '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.297.82 crore bank facilities of Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited (SWS). The outlook is '**Stable**'.

Also, Acuite has assigned the long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and the short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.22.43 crore bank facilities of SWS. The outlook is '**Stable**'.

The rating reaffirmation considers the comfort drawn on the long track record of operations and stable business risk profile. Coupled to that, the company has a comfortable financial risk profile and adequate liquidity. The rating, however, remains constrained on account of declining operating margins. The EBITDA margins of SWS have shown a declining trend for the last four years ended 31 March, 2020. The operating profitability for FY2020 stood at 4.91% (PY: 5.00%). The fluctuation in milk rates, as well as decline in sales of value added products in FY2020, has impacted the operating margins. However, going ahead, the margins are expected to improve as SWS will concentrate more on volume profits. The society has entered into a new contract with Sharad Trading Company to supply Malai Paneer and Curd to various restaurants across Mumbai which is expected to improve the operating margins over the medium term.

About the Company

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 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.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of 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 five 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.

- **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. 238.26 crore as on 31 March, 2020 (Prov) as compared to Rs. 203.44 crore as on 31 March, 2019. 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 network of SWS will continue to grow at a moderate pace, notwithstanding the higher expected profitability from its operations. The gearing stood at 0.96 times as on 31 March, 2020 (Prov) as against 1.23 times as on 31 March, 2019. The total debt of Rs. 228.82 crore comprises term loan outstanding's of Rs. 68.34 crore, Rs. 2.50 crore of debentures, and working capital borrowing of Rs. 157.98 crore as on 31 March, 2020 (Prov). The net cash accruals stood at Rs. 16.00 crore for FY2020 (Prov) indicating net cash accruals to total debt (NCA/TD) of 0.07 times (0.05 times for FY2019).

The interest coverage ratio (ICR) stood at 1.58 times in FY2020 (Prov) as against 1.44 times in FY2019. The debt service coverage ratio (DSCR) stood at 1.00 times in FY2020 (Prov). 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 network (TOL/TNW) stood at 1.59 times in FY2020 (Prov) and 1.88 times in FY2019. Besides, debt SWS is also supported by non-current liabilities of Rs. 117.93 crore, which includes long term deposits from the members/channel partners. This will constitute 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. have increased the competitive intensity in various markets. Hence, 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 its 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 Sensitivity

- Significant growth in operating performance along with the profitability margins.
- 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: Adequate

SWS has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The society generated cash accruals of Rs.10.87 crore – Rs. 16.00 crore during the last four years through 2017-20. The firm's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 121 in FY2020. This has led to a reliance on working capital borrowings, the cash credit limit of the society remains utilised at ~94.00 per cent during the last 6 months period ended 31 October 2020. The society maintains unencumbered cash and bank balances of Rs.16.30 crore as on March 31, 2020. The current ratio of the society stood healthy at 1.41 times as on March 31, 2020. The society is likely to incur capex of ~Rs.23.00 crore over the medium, which is likely to be funded by government subsidy, equity and external borrowing. 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	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	878.87	823.78
PAT	Rs. Cr.	8.52	5.15
PAT Margin	(%)	0.97	0.63
Total Debt/Tangible Net Worth	Times	0.96	1.23
PBDIT/Interest	Times	1.58	1.44

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-52.htm>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Sept-2019	Cash Credit	Long Term	165.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	75.00	ACUITE A-/Stable (Reaffirmed)
	Proposed Term Loan	Long Term	37.50	ACUITE A-/Stable (Reaffirmed)
	Short Term Loan	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Bank guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Bank Facility	Short Term	27.75	ACUITE A2+ (Reaffirmed)
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	28-Dec-2011	Not Applicable	31-Jan-2027	67.98 (Reduced from Rs.75.00 crore)	ACUITE A-/Stable (Reaffirmed)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A-/Stable (Reaffirmed)
Short Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ (Reaffirmed)

Working Capital Demand Loan	15-May-2020	Not Applicable	30-Apr-2022	15.00	ACUITE A-/Stable (Assigned)
Short Term Loan	03-Sept-2020	Not Applicable	31-Mar-2021	0.78	ACUITE A2+ (Assigned)
Short Term Loan	03-Sept-2020	Not Applicable	31-Mar-2021	5.01	ACUITE A2+ (Assigned)
Short Term Loan	03-Sept-2020	Not Applicable	31-Mar-2021	1.64	ACUITE A2+ (Assigned)
Bank guarantee/Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	40.34	ACUITE A2+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Aishwarya Phalke Senior Analyst - Rating Operations Tel: 022-49294031 aishwarya.phalke@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité 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. Acuité 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, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité 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. Acuité 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.acuite.in) for the latest information on any instrument rated by Acuité.