

Press Release

SHREE WARANA SAHAKARI DUDH UTPADAK PRAKRIYA SANGH LIMITED

February 04, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	234.75	ACUITE A- Stable Reaffirmed	-
Bank Loan Ratings	85.50	-	ACUITE A2+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	320.25	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed 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. 320.25 crore bank facilities of Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited (SWS). The outlook is 'Stable'.

Rationale for Rating Reaffirmation

The rating reaffirmation considers the comfort drawn on the long track record of operations and stable business risk profile. Coupled with 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 three years ended 31 March, 2021. The operating profitability for FY2021 stood at 3.71% (PY: 4.00%). The fluctuation in milk rates, as well as decline in sales of value added products in FY2021, has impacted the operating margins. However, going ahead, SWS's ability to improve its margins by improving its contribution of value added products will remain a key rating sensitivity.

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, 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 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 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 and processes 7 lac liters of milk per day. The above mentioned track record of operations has helped them achieve a revenue of Rs. 935 Cr. in FY2021, Rs. 878 in FY2020 and Rs. 823 Cr. in FY2019. Further, for FY2022 (Till November 2021) SWS has been able to achieve further revenue of Rs. 678 Cr. This is on account of orders from Indian Army and expansion into the state of Bihar through tie ups with local milk societies.

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.

Comfortable financial risk profile

The financial risk profile of SWS is comfortable marked by comfortable capital structure and debt protection metrics. The net worth stood at Rs. 255.04 crore as on 31 March, 2021 as compared to Rs. 234.06 crore as on 31 March, 2020. The business model of a cooperative 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 0.79 times as on 31 March, 2021 as against 0.98 times as on 31 March, 2020. The total debt of Rs. 255.40 crore comprises term loan outstanding's of Rs. 76.85 crore, and working capital borrowing of Rs. 124.15 crore as on 31 March, 2021. The interest coverage ratio (ICR) stood at 1.31 times in FY2021 as against 1.42 times in FY2020. The debt service coverage ratio (DSCR) stood at 1.31 times in FY2021 against 0.90 times in FY2020. SWS's excess profit is distributed amongst its members through increased milk rates. However this amount is paid after taking into account the expenses and repayment obligation for the society. After adjusting for this amount the ICR and DSCR for FY2021 stood comfortable at 3.27 times and 2.44 times respectively in FY2021. 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 1.50 times in FY2021 and 1.62 times in FY2020. Besides, debt SWS is also supported by non-current liabilities of Rs. 155.01 Cr., which includes long term deposits from the members/channel partners. This will constitute steady long term support to SWS.

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

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.

Acuité 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

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's repayment obligations are expected to remain in the range of Rs. 20-21 Cr. for the period FY2021-23 the net cash accruals remain in the range of Rs. 14-17 Cr. SWS's excess profit is distributed amongst its members through increased milk rates. However this amount is paid after taking and repayment obligation for the society. After adjusting for this amount the total net cash accruals stood at around Rs. 39-40 Cr. for FY2022- FY2023. Besides this SWS had also maintained cash & bank balance of Rs. 21 Cr. as on March 31, 2021 which increased ~Rs. 40 Cr. as on November 30, 2021. The operations are moderately working capital intensive with GCA of 123 days in FY2021 and 120 days in FY2020. However SWS dependence on bank borrowings remains high as although it has maintained some inventory and extend credit period to its clients it has to make payments to its society for the milk supplied within 7-10 days. However the Acuite expects SWS's liquidity profile to remain adequate on account adequate funds vis-à-vis its repayment obligations and considerable cash and bank balances.

Outlook: Stable

Acuité 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-thanexpected increase in debt-funded capex.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	935.00	878.77
PAT	Rs. Cr.	1.13	4.32
PAT Margin	(%)	0.12	0.49
Total Debt/Tangible Net Worth	Times	0.79	0.98
PBDIT/Interest	Times	1.31	1.42

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>
- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Dec 2020	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Proposed Term Loan	Long Term	9.50	ACUITE A- Stable (Reaffirmed)
	Working Capital Demand Loan	Long Term	15.00	ACUITE A- Stable (Assigned)
	Short Term Loan	Short Term	0.78	ACUITE A2+ (Assigned)
	Short Term Loan	Short Term	1.64	ACUITE A2+ (Assigned)
	Proposed Bank Facility	Short Term	40.34	ACUITE A2+ (Reaffirmed)
	Term Loan	Long Term	67.98	ACUITE A- Stable (Reaffirmed)
	Short Term Loan	Short Term	5.01	ACUITE A2+ (Assigned)
	Short Term Loan	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	165.00	ACUITE A- Stable (Reaffirmed)
26 Sep 2019	Term Loan	Long Term	75.00	ACUITE A- Stable (Reaffirmed)
	Short Term Loan	Short Term	5.00	ACUITE A2+ (Reaffirmed)
	Proposed Term Loan	Long Term	37.50	ACUITE A- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	27.75	ACUITE A2+ (Reaffirmed)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Reaffirmed)
	Cash Credit	Long Term	165.00	ACUITE A- Stable (Reaffirmed)
05 Jul 2018	Cash Credit	Long Term	140.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Cash Credit	Long Term	51.00	ACUITE A- Stable (Assigned)
	Term Loan	Long Term	103.00	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Proposed Term Loan	Long Term	11.25	ACUITE A- Stable (Upgraded from ACUITE BBB+ Stable)
	Short Term Loan	Short Term	5.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Bank Guarantee	Short Term	10.00	ACUITE A2+ (Upgraded from ACUITE A2)
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		

	Short Term Loan	Term	5.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A2+ Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	165.00	ACUITE A- Stable Reaffirmed
Bank of India	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- Stable Reaffirmed
Bank of India	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	70.50	ACUITE A2+ Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A2+ Reaffirmed
Bank of India	Not Applicable	Term Loan	28-12-2011	Not available	31-01-2027	50.25	ACUITE A- Stable Reaffirmed

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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 8,850 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 Kanjurmarg, Mumbai.

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