

Press Release

KAUSALYA MILK PRODUCTS PRIVATE LIMITED

January 12, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 114.30 Cr.
Long Term Rating	SMERA A+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA A+** (read as SMERA A plus) on the Rs. 114.30 crore bank facilities of KAUSALYA MILK PRODUCTS PRIVATE LIMITED. The outlook is '**Stable**'.

For arriving at the ratings, SMERA has consolidated the business and financial risk profiles of Prabhat Dairy Limited (PDL), Cheese Land Agro (India) Private Limited (CLAIPL), Sunfresh Agro Industries Private Limited, Kausalya Milk Products Private Limited and Sunrise Dairy Private Limited (SDPL). The consolidated approach has been adopted on account of significant business and financial alignment between these entities. PDL is engaged in processing and marketing of milk and dairy products. CLAIPL is a 100% subsidiary of PDL and is engaged in processing of milk and dairy products. SAIPL is a step down subsidiary of PDL in the dairy business. Kausalya Milk Products Private Limited incorporated in 2010 engaged in milk collection, handling and processing of milk. KMPPL is the associate company of Prabhat Group of Industries (PG) and exclusively supplying milk to Prabhat Dairy Limited. KMPPL and SDPL offers wide range of products like pasteurized Milk, Cream, Butter, Condensed Milk, Skimmed Milk & Whole Milk powder. PDL procured ~35% of its milk requirements for FY17 from KMPPL and SDPL. PDL has extended corporate guarantee to KMPPL & SDPL. The group has 15 lac litres per day of milk processing capacity with multi product capabilities.

Key Rating Drivers

Strengths

• Established player in milk and milk products with a strong regional brand presence

KMPPL is operating in dairy business promoted by Mr. Vijay Mohan Harde and Mr. Anil Kadu, who are involved in milk procurement and processing activity. The promoters have around two decades of experience in the milk collection activity. The group has established procurement and distribution network for milk and milk products; recognized brand name 'Prabhat' in Western Maharashtra. The group has a network of over 85000 farmers for procurement of milk across Ahmednagar, Nashik and Pune regions. The group has over 550 collection centres. SMERA believes that PG's business risk profile will be supported by its established position in Maharashtra, strong brand presence and high demand prospects due to increasing consumption of milk products.

• Healthy financial risk profile

KMPPL has reported revenues of Rs. 358.48 cr in FY17 at a growth of 61.8% and the operating margins stood at 3.38% in FY17 compared to 1.87% in FY16. Net worth of the company stood at Rs. 16.63 cr as on March 31, 2017 and the debt levels of Rs. 58.32 cr. Gearing stands high at 3.51 times and interest coverage of 3.82 times as on March 31, 2017. The net worth of PG stands at Rs. 703.46 cr as on March 31, 2017 compared to Rs. 660.79 cr as on March 31, 2016. Gearing ratio of the group is at 0.71 times as on March 31, 2017 compared to 0.36 times as on March 31, 2016 with total debt of Rs. 495.98 cr and Rs. 237.68 cr for years ending FY17 and FY16 respectively. The debt comprises of long term borrowings of Rs. 71.95 cr and short term debt of Rs. 413.97 cr. Group has comfortable coverage indicators with interest coverage ratio (ICR) of 4.78 times and DSCR of 3.24 times as on Mar 31, 2017 significantly improved over the previous year end which stood at 2.99 times and 1.56 times respectively due to improved net margins. NCA/TD stands at 0.21 times as on Mar 31, 2017 compared to 0.30 times as on Mar 31, 2016. SMERA believes the financial risk profile to remain strong over the long term.

Weaknesses

- **High working capital intensity of the group**

PG has high working capital intensity with GCA days at 165 as on Mar 31, 2017 owing to the high debtor days of 71. The payment to the farmers is made in 10 days and the inventory levels are at 45 days as on Mar 31, 2017. Inventory primarily comprises of ghee, butter along with other milk products. The management of working capital will be a key sensitivity for the group. KMPPL has GCA days at 50 primarily comprising of receivables of Rs. 23.13 cr from the customers.

- **Highly competitive industry**

The dairy industry is highly fragmented with large number of unorganised players; also the company faces competition from some of the big players such as Amul, Parag, Mother Dairy etc. in the organised segment. While the dairy segment has attracted significant PE investments in the past which supports the high growth prospect of the industry. However, the competitive intensity amongst the players is high as the leading players are trying to enter into new segments. This limits the company's ability to significantly increase the prices and scale up operations. At the supply side, PG has to ensure competitive remuneration to the farmers for procurement of milk.

- **High geographical concentration**

Company mainly caters to Maharashtra region in the retail segment while the presence remains limited in the other areas. This limits the scale of operation of the group and growth in the medium term. Going forward, the ability to increase presence in areas other than Maharashtra would be a key factor in the long term growth prospects for the group.

Analytical Approach

SMERA has consolidated the risk profiles of companies in PG due to significant business and financial synergies within the companies comprising of Prabhat Dairy Limited, Cheese Land Agro (India) Private Limited, Sunfresh Agro Industries Private Limited, Kausalya Milk Products Private Limited and Sunrise Dairy Private Limited.

Outlook: Stable

SMERA believes that group will continue to benefit over the medium term. 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 face challenges in achieving the expected revenue growth 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 higher working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	1505.62	1189.88	1013.57
EBITDA	Rs. Cr.	150.15	125.26	113.08
PAT	Rs. Cr.	47.11	27.22	30.45
EBITDA Margin	(%)	9.97	10.53	11.16
PAT Margin	(%)	3.13	2.29	3.00
ROCE	(%)	8.88	9.10	28.20
Total Debt/Tangible Net Worth	Times	0.71	0.36	1.22
PBDIT/Interest	Times	4.78	2.99	2.63
Total Debt/PBDIT	Times	2.91	1.88	3.78
Gross Current Assets (Days)	Days	165	136	124

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

NA

Any other information

NA

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Consolidation Of Companies - <https://www.smera.in/criteria-consolidation.htm>

Note on complexity levels of the rated instrument

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

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. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	105.30	SMERA A+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA A+ / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in
Abhishek Verma Manager - Rating Operations Tel: 022-67141115 abhishek.verma@smera.in	.

ABOUT SMERA

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