

Press Release

VEDAM MILK PRODUCT

April 03, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.24 Crore
Long Term Rating	SMERA B+ / Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) to the Rs. 6.24 crore bank facilities of Vedam Milk Products (VMP). The outlook is '**Stable**'.

The Tamil Nadu-based VMP was established in 2016 by Mr. N Ramesh, Mr. N. Suresh, Mrs. S. Maheswari and Mrs. R. Rekha. The firm is engaged in the trading of milk and plans to commence production of dairy products including ghee, paneer, packaged milk among others from April 2018. The estimated project cost is Rs. 9.00 crore (including machinery cost of Rs. 7.80 crore and factory building of Rs. 1.20 crore).

Key rating drivers

Strengths

Experienced management

Mr. N Ramesh, the Managing Partner has over a decades experience in milk procurement. Mr. N Suresh has experience of over a decade in milk procurement, manufacture and supply chain management. The partners already have a distribution network which is expected to benefit VMP. SMERA believes that VMP will benefit from the extensive experience of the partners and established track record.

Weaknesses

Project implementation risk

The estimated project cost is Rs. 9.00 crore to be funded through a term loan of Rs. 5.74 crore and partner's capital of Rs. 3.50 crore. Commercial operations are expected to commence from April, 2018. Any delay would have an adverse impact on the debt servicing ability of the firm.

Susceptibility to changes in government regulations, environmental conditions

The profit margins are susceptible to changes in government regulations such as ban on skimmed milk powder (SMP) exports and withdrawal of export incentives. Furthermore, external factors such as cattle diseases can also have a bearing on margins.

Highly competitive industry

The dairy industry is highly fragmented with a large number of unorganised players. The firm also faces competition from big players including Amul and Aavin Milk in the organised segment. Also, ensuring competitive remuneration to farmers for procurement of milk would be a key sensitivity for a steady supply chain.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of VMP.

Outlook: Stable

SMERA believes that VMP will maintain a Stable outlook over the medium term owing to the extensive experience of the partners. The outlook may be revised to 'Positive' if the firm achieves higher than expected revenue and profit margins. Conversely, the outlook may be revised to 'Negative' in case of decline in profit margins and delay in commencement of operations leading to increase in debt funded working capital and capital expenditure.

About the Rated Entity - Key Financials

The firm is yet to complete its first full year of operations.

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

Not Applicable

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

NotApplicable

*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	0.50	SMERA B+ / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.74	SMERA B+ / Stable

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ABOUT SMERA

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