

Press Release

Govind Milk And Milk Products Private Limited

June 01, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 75.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) on the Rs. 75.00 crore bank facilities of Govind Milk And Milk Products Private Limited. The outlook is '**Stable**'.

Govind Milk & Milk Products Private Limited (GMMP), incorporated in 1996, is promoted by Mr. Sanjeevraje Naik Nimbalkar. It is engaged in milk processing and production of dairy products. GMMP has upto 12 lac litres per day of milk processing capacity with multi product capabilities. It offers wide range of products like ghee, butter, flavoured milk, curd, to name a few. The products are distributed under the brand name of 'Govind' and 'Funzz'. GMMP mainly has its presence in Maharashtra, Gujarat, Karnataka and Goa. It has 3 processing units in Maharashtra and 1 in Karnataka.

Key Rating Drivers

Strengths

- **Established player in dairy products with a strong regional presence:**

GMMP has been operating in the dairy business for almost 2 decades led by Mr. Sanjeevraje Naik Nimbalkar. The promoter has two decades of experience in the dairy activity. The company has an established procurement and distribution network for milk and milk products. It has a network of 17, 000 farmers for procurement of milk. GMMP has over 191 collection centers and 8 chilling centers. Acuite believes that GMMP's business risk profile will be supported by its established position in Maharashtra, Gujarat, Karnataka and Goa with strong brand presence and high demand prospects due to increasing consumption of milk products.

- **Moderate financial risk profile:**

The financial risk profile is comfortable marked by moderate networth, comfortable gearing and modest debt protection metrics. The networth levels of the company stood at Rs.70.26 crore (Provisional) as on 31 March, 2018 compared to Rs.64.98 crore as on 31 March, 2017. The gearing stood at 1.23 times (Provisional) as on 31 March, 2018 as against 1.36 times as on 31 March, 2017. The total debt of Rs.86.37 crore (Provisional) comprises term loan of Rs.35.70 crore, unsecured loans from financial institutes and others of Rs.7.77 crore, secured loans from financial institutes of Rs.3.68 crore and working capital borrowing of Rs.39.22 crore as on 31 March, 2018. The Interest Coverage Ratio (ICR) stood at 2.40 times (Provisional) in FY2018 as against 1.97 times in FY2017. The Debt Service Coverage Ratio (DSCR) stood at 1.16 times (Provisional) in FY2018 as against 0.80 times in FY2017. The decline is due to improvement in profitability in FY2018. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.08 times (Provisional) in FY2018 and 2.13 times in FY2017. However, the company has demonstrated strong financial flexibility, driven by healthy liquidity to fund financial obligation.

Weaknesses

- **Significant debt service obligation vis-a-vis net cash accruals:**

The company has availed total debt of Rs.86.37 crore (Provisional) as on 31 March, 2018. The net cash accruals of the company stood at Rs.12.33 crore (Provisional) in FY2018 against debt obligation of Rs.12.30 crore. The operating margins of the company stood at 4.14 percent (Provisional) in FY2018 as against 2.73 percent in FY2017 and 3.07 percent in FY2016. The consistent decline in EBITDA margins is on account of increase in raw material (milk) cost and selling cost as a percentage of sales. However, the operating margins improved in FY2018 due to decrease in selling expenses. Further, any decline in the operating margins would affect the debt repayment obligation by the company as it would

generate less net cash accruals which will stress the account even more. However, the company is capable of infusing funds in the form of promoter's equity, unsecured loans or private equity for repayment of debt.

• **Uneven revenue and profitability:**

The operating income stood at Rs.590.95 crore (Provisional) in FY2018 compared to Rs.561.10 crore in FY2017 and Rs.566.28 crore in FY2016. The increase in revenue in FY2018 is on account of increased orders from existing as well as new customers. The PAT margins stood at 0.85 percent (Provisional) in FY2018 compared to 0.01 percent in FY2017 and 0.75 percent in FY2016.

• **Susceptibility to changes in government regulations with highly competitive industry:**

GMMP, like all dairy players, is susceptible to government regulations such as ban on skimmed milk powder (SMP) exports and removal of export incentives. Furthermore, it is susceptible to failure in milk production because of external factors such as cattle diseases. The dairy industry is highly fragmented with large number of unorganised players. Also, the company faces competition from the big players such as Amul, Parag, Karnataka Milk Federation, in the organised segment. While the dairy segment has attracted significant PE investments in the past which has supported the companies in the segment but has also increased the competitive intensity among the players. This limits the company's ability to significantly improve the margins. Also, ensuring competitive remuneration to the farmers for procurement of milk would be a key sensitivity for maintaining a steady supply chain.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Govind Milk & Milk Products Private Limited to arrive at the rating.

Outlook: Stable

Acuite believes that GMMP will maintain a 'Stable' outlook over the medium term owing to its established presence in the dairy industry, supported by strong procurement capability and distribution network. The outlook may be revised to 'Positive' if the scale of operations increased substantially, while also improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve the scalability 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 working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	590.95	561.10	566.28
EBITDA	Rs. Cr.	24.44	15.33	17.36
PAT	Rs. Cr.	5.05	0.04	4.26
EBITDA Margin	(%)	4.14	2.73	3.07
PAT Margin	(%)	0.85	0.01	0.75
ROCE	(%)	11.16	6.51	10.33
Total Debt/Tangible Net Worth	Times	1.23	1.36	1.16
PBDIT/Interest	Times	2.40	1.97	2.60
Total Debt/PBDIT	Times	3.47	5.36	3.57
Gross Current Assets (Days)	Days	73	68	62

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

CARE, vide its press release dated February 14, 2018 had denoted the rating of GMMP Limited as 'CARE BB/Negative/CARE; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE BBB-/Stable' vide its press release dated April 28, 2017.

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	43.60	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	5.05	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.03	ACUITE BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB- / Stable
Mortgage loan facility	Not Applicable	Not Applicable	Not Applicable	8.19	ACUITE BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	0.13	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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