

Press Release

Govind Milk And Milk Products Private Limited

August 20, 2019



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed 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 (GMPL), incorporated in 1996 is promoted by Mr. Sanjeevraje Naik Nimbalkar. It is engaged in milk processing and production of dairy products. GMPL has 12 lac litres per day of milk processing capacity with multi-product capabilities. It offers wide range of products such as ghee, butter, flavoured milk, curd, Shrikhand, Amrakhand, Lassi, buttermilk, skimmed milk powder, among others. The products are distributed under the brand name of 'Govind'. GMPL mainly has its presence in Maharashtra, Gujarat, Karnataka and Goa. It has 3 processing units in Maharashtra and 1 in Karnataka.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the GMPL to arrive at the rating.

Key Rating Drivers

Strengths

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

GMPL, led by Mr. Sanjeevraje Naik Nimbalkar, has been operating in dairy business for almost 2 decades. 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 farmers for procurement of milk. GMPL has over 200 collection centers and 8 chilling centers. Acuité believes that GMPL's business risk profile will be supported by its established position in Maharashtra, Gujarat, 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 the company is comfortable marked by moderate networth, comfortable gearing and modest debt protection metrics. The net worth levels of the company stood at Rs. 73.85 crore as on 31 March, 2019 (Provisional) compared to Rs. 66.19 crore as on 31 March, 2018. The gearing stood at 1.06 times as on 31 March, 2019 (Provisional) as against 1.31 times as on 31 March, 2018. The total debt of Rs. 78.27 crore comprises term loan of Rs. 26.80 crore, unsecured loans from financial institutes and others of Rs. 8.04 crore and working capital borrowing of Rs. 43.43 crore as on 31 March, 2019 (Provisional). The interest coverage ratio (ICR) stood at 2.67 times in FY2019 (Provisional) as against 1.83 times in FY2018. The debt service coverage ratio (DSCR) stood at 1.20 times in FY2019 (Provisional) as against 0.99 times in FY2018. The total outside liabilities to tangible networth (TOL/TNW) stood at 2.20 times in FY2019 (Provisional) and 2.31 times in FY2018. However, the company has demonstrated strong financial flexibility, driven by healthy liquidity to fund financial obligation.

Weaknesses

- **Uneven revenue and profitability:**

GMPL's operating income stood at Rs. 593.95 crore in FY2019 (Provisional) compared to 574.44 crore in FY2018 and Rs. 561.10 crore in FY2017. The increase in revenue in FY2019 is on account of increase in sale of value added products. The profitability margins are better in the value added products such

as curd, butter, paneer, among others. The increase in EBITDA margins is also on account of decrease in the global prices of skimmed milk powder. The operating margins (EBIDTA) stood at 4.38 per cent in FY2019 (Provisional) as against 2.74 per cent in FY2018. The PAT margins stood at 1.36 per cent in FY2019 (Provisional) compared to 0.30 per cent in FY2018.

• Susceptibility to changes in government regulations and environmental conditions

GMPL, 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.

• Highly competitive industry:

The dairy industry is highly fragmented with large number of unorganised players. The company also faces competition from some of the big players such as Amul, Parag, Karnataka Milk Federation, among others in the organised segment. While the dairy segment has attracted significant PE investments in the past, which has supported the companies in the segment, it has also increased the competitive intensity among the players. This limits the society'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.

Liquidity Position

GMPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.12-15.87 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.7.53-11.30 crore over the same period. The cash accruals of the company are estimated to remain around Rs.20.65-28.37 crore during 2020-22, while its repayment obligations are estimated to be around Rs.7.38-9.18 crore. The company's operations are relatively less working capital intensive as marked by Gross Current Assets (GCA) of 86 days in FY 2019(Provisional). The working capital borrowings remains utilised above 95 percent during the last 10-month period ended May 2019. The group maintains unencumbered cash and bank balances of Rs.2.40 crore as on March 31, 2019. The current ratio of the group stood healthy at 1.10 times as on March 31, 2019. Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that GMPL will maintain a 'Stable' business risk profile 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 the 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 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	593.95	574.44	561.10
EBITDA	Rs. Cr.	26.02	15.73	15.33
PAT	Rs. Cr.	8.09	1.72	0.04
EBITDA Margin	(%)	4.38	2.74	2.73
PAT Margin	(%)	1.36	0.30	0.01
ROCE	(%)	14.82	7.58	6.51
Total Debt/Tangible Net Worth	Times	1.06	1.31	1.36
PBDIT/Interest	Times	2.67	1.83	1.97
Total Debt/PBDIT	Times	2.54	4.54	5.36
Gross Current Assets (Days)	Days	86	76	68

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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
01-Jun-2018	Cash Credit	Long Term	43.60	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	5.05	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	9.03	ACUITE BBB- / Stable (Assigned)
	Term Loan	Long Term	9.00	ACUITE BBB- / Stable (Assigned)
	Mortgage loan facility	Long Term	8.19	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Facility	Long Term	0.13	ACUITE BBB- / Stable (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	52.72	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	2.77	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	6.48	ACUITE BBB- / Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	7.54	ACUITE BBB- / Stable (Reaffirmed)
Mortgage loan facility	Not Applicable	Not Applicable	Not Applicable	5.49	ACUITE BBB- / Stable (Reaffirmed)

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