

Press Release

Govind Milk and Milk Products Private Limited

November 19, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.90.00 Cr. (Enhanced from Rs.75.00 cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.80.00 crore bank facilities and assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.10.00 crore bank facilities of Govind Milk and Milk Products Private Limited (GMPL). The outlook is '**Stable**'.

Govind Milk and 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 company has 3 processing units in Maharashtra and 1 in Karnataka. The products are distributed under the brand name of 'Govind'. GMPL has its presence mainly in Maharashtra, Gujarat, Karnataka and Goa.

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 more than 2 decades. 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.

- **Improving business risk profile**

GMPL's business risk profile is supported by well diversified revenue stream such as packaged milk, cream, butter, ghee, curd to name few. The company caters to reputed companies such as Patanjali Agro India Pvt. Ltd, Abbott Healthcare Pvt Ltd, Havmor Ice Cream Pvt. Ltd. amongst others. The company's robust distribution network has help to reinforce its market position. The operating income stood at Rs.597.47 crore in FY2019 compared to 578.25 crore in FY2018. The operating margins (EBIDTA) stood at 4.80 per cent in FY2019 as against 3.38 per cent in FY2018. The PAT margins stood at 1.03 per cent in FY2019 compared to 0.47 per cent in FY2018. The margins are improving due to expansion in value added products such as curd, butter, paneer, among others and on account of decrease in the global prices of skimmed milk powder.

Acuité believes that the GMPL will continue to benefit over the medium term from its revenue diversity and established customer relationships.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate net worth, comfortable gearing and modest debt protection metrics. The net worth levels of the company stood at Rs.71.92 crore as on 31 March 2019 compared to Rs.66.19 crore as on 31 March 2018. The gearing stood

at 1.03 times as on 31 March 2019 as against 1.31 times as on 31 March 2018. The total debt of Rs.74.37 crore as on 31 March 2019 comprises term loan of Rs.26.45 crore, unsecured loans of Rs.4.50 crore and working capital borrowing of Rs.43.42 crore. The interest coverage ratio (ICR) stood at 2.49 times in FY2019 as against 1.93 times in FY2018. The debt service coverage ratio (DSCR) stood at 1.12 times in FY2019 as against 1.04 times in FY2018. The total outside liabilities to tangible net worth (TOL/TNW) stood at 2.26 times as on 31 March 2019 and 2.31 times as on 31 March 2018.

Acuité believes that the ability of the company to sustain its financial risk profile in the medium term will be a factor of key rating sensitivity.

Weaknesses

- **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 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.

Liquidity Position: Adequate

GMPL has adequate liquidity marked by sufficient net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.13.94 crore during the FY2019, while its maturing debt obligations were Rs.11.30 crore over the same period. The cash accruals of the company are estimated to remain around Rs.15-20 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 85 days in FY 2019. There is high reliance on working capital borrowings. The working capital borrowings remains utilised above 90 percent during the last 12-month period ended September 2019. The company maintains unencumbered cash and bank balances of Rs.2.39 crore as on 31 March, 2019. The current ratio of the company stood at 1.13 times as on 31 March, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Rating Sensitivities

The company's ability to improve the scale of operation and profitability with sustenance of the moderate financial risk profile are the key rating sensitivity.

Material Covenants

None

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 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	597.47	578.25	561.10
EBITDA	Rs. Cr.	28.66	19.54	15.33
PAT	Rs. Cr.	6.17	2.75	0.04

EBITDA Margin	(%)	4.80	3.38	2.73
PAT Margin	(%)	1.03	0.47	0.01
ROCE	(%)	13.95	8.24	6.51
Total Debt/Tangible Net Worth	Times	1.03	1.31	1.36
PBDIT/Interest	Times	2.49	1.93	1.97
Total Debt/PBDIT	Times	2.56	4.31	5.36
Gross Current Assets (Days)	Days	85	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
20-Aug-2019	Cash Credit	Long Term	52.72	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan- I	Long Term	2.77	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan- II	Long Term	6.48	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan- III	Long Term	7.54	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan- IV	Long Term	5.49	ACUITE BBB- / Stable (Reaffirmed)
01-Jun-2018	Cash Credit	Long Term	43.60	ACUITE BBB- / Stable (Assigned)
	Term Loan- I	Long Term	5.05	ACUITE BBB- / Stable (Assigned)
	Term Loan- II	Long Term	9.03	ACUITE BBB- / Stable (Assigned)
	Term Loan- III	Long Term	9.00	ACUITE BBB- / Stable (Assigned)
	Term Loan- IV	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	60.00 (revised from 52.72)	ACUITE BBB- / Stable (Reaffirmed)

Term Loan- I	Not Applicable	Not Applicable	Not Applicable	1.54 (revised from 2.77)	ACUITE BBB- / Stable (Reaffirmed)
Term Loan- II	Not Applicable	Not Applicable	Not Applicable	6.03 (revised from 6.48)	ACUITE BBB- / Stable (Reaffirmed)
Term Loan- III	Not Applicable	Not Applicable	Not Applicable	7.49 (revised from 7.54)	ACUITE BBB- / Stable (Reaffirmed)
Term Loan- IV	Not Applicable	Not Applicable	Not Applicable	4.94 (revised from 5.49)	ACUITE BBB- / Stable (Reaffirmed)
Term loans- V	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- / Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head – Corporate and Infrastructure Sector Ratings Tel: 022 49294041 aditya.gupta@acuite.in Disha Parmar Analyst - Rating Operations Tel: 022-49294054 disha.parmar@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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 6,000 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.