

Press Release

Govind Milk and Milk Products Private Limited

April 06, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.107.08 Cr. (Enhanced from Rs.90.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed and Assigned)

* 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.90.13 Cr. bank facilities and has assigned the long term rating of '**ACUITE BBB-**' (read as ACUITE triple B minus) on the Rs.16.95 Cr. bank facilities of Govind Milk and Milk Products Private Limited (GMPL). The outlook is '**Stable**'.

About the Company

Phaltan based Govind Milk and Milk Products Private Limited (GMPL) incorporated in 1996 by Mr. Sanjeevraje Naik Nimbalkar is engaged in milk processing, production and marketing of dairy products. The company has facilities based in Phaltan, Yamkanmardi, Mumbai and Ahmednagar with a processing capacity of 10 Lakhs Litres Per Day (LLPD) and current utilisation being at 50 percent.

Analytical Approach

Acuité has considered the standalone view of the business and financial risk profile of 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 from farmers. GMPL has over 240 collection centres and 10 chilling centres all over India to cater the demand. GMPL which has traditionally catered in the Maharashtra, Gujarat, Karnataka and Goa region backed by strong brand presence and high demand prospects due to increasing consumption of milk products has started marketing its products in Northern and north eastern states such as Haryana, Punjab, Rajasthan, Tripura, Assam, Meghalaya domestically and in Middle East region internationally by partnering with hypermarket chains like Lulu from FY2021.

Acuité believes that GMPL will continue to benefit from the company's established presence and brand recognition in the industry and among the consumers supporting its business risk profile over the medium term.

- **Moderate business risk profile**

GMPL's business risk profile is supported by a diversified revenue stream such as packaged milk, cream, butter, ghee, curd to name few. The company caters to reputed companies such as, Abbott Healthcare Private Limited, Mother Dairy Fruit & Vegetable Private Limited amongst others. The company has been able to overcome the impact of covid-19 by partnering with several new retail chains, E-commerce websites to sell its products. At the same time, it has also started focusing on Middle Eastern region as a source of growth. The company has been able to add several new companies to its customer portfolio such as Baskin Robins, Ferrero Rocher, Dandy's and Nestle to name a few.

While the company's robust distribution network has helped to reinforce its market position as reflected in its operating income of Rs.693.29 crore in FY2020 as against Rs.597.47 crore in FY2019. The operating margins (EBIDTA) has deteriorated to 3.63 percent in FY2020 as against 4.80 percent in FY2019. Similarly, The ROCE too has deteriorated to 11.69 percent in FY2020 as against 13.95 percent in FY2019. The PAT margins stood at 1.10 percent in FY2020 as against 1.03 percent in FY2019.

- **Moderate financial risk profile**

GMPL has moderate financial risk profile marked by moderate increase in tangible net worth, comfortable gearing and modest debt protection metrics.

The tangible net worth of the company stood at Rs.80.01 Cr. as on March 31, 2020 as against Rs.71.92 Cr. as on March 31, 2019. The Gearing (Debt to Equity) Ratio stood at 1.09 times as on March 31, 2020 as against 1.03 times as on March 31, 2019. The debt profile majorly comprises of short term debt of Rs.53.50 Cr, unsecured loans of Rs.9.19 Cr. and long term debt of 17.32 Cr. as on March 31, 2020.

The TOL/TNW (Total Outside Liabilities to Total Net Worth) stood at 1.97 times as on March 31, 2020 as against 2.26 times as on March 31, 2019. The Debt-EBITDA has seen jump to 3.27 times in FY2020 as against 2.56 times in FY2019.

The debt protection metrics have shown improvement over the years, with ICR (Interest Coverage Ratio) at 2.91 times in FY2020 as against 2.49 times in FY2019 and as against 1.83 times in FY2018. The DSCR (Debt-Service Coverage Ratio) stood at 1.50 times in FY2020 as against 1.12 times in FY2019 as against 0.99 times in FY2018. The NCA/TD (Net Cash Accrual to Total Debt) stood at 0.18 times as in FY2020 as against 0.19 times in FY2019 and 0.10 times in FY2018.

Acuité believes that the sustainability in the financial risk profile of the company will be a key rating sensitivity factor.

Weaknesses

- **Susceptibility to changes in government regulations and environmental conditions and milk prices**

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. At the same time, it is also susceptible to volatile milk prices.

- **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.

- **Deterioration in realisation of mass selling products**

GMPL has witnessed significant deterioration in the products that have significant contribution to its revenue profile. Products include Butter, Skimmed Milk Powder (SMP), and Whole Milk Powder (WMP) have observed decrease in the realisations while products such as Ghee and Curd have seen increase in the realisations. At the same time the company has also witnessed increase in its raw materials costs on Y-O-Y basis.

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.15.61 crore during the FY2020, while its maturing debt obligations were Rs.7.20 crore over the same period. The cash accruals of the company are estimated to remain around Rs.25-30 crore during 2021-23 period, while its repayment obligations are estimated to be around Rs.6.00 - Rs.15.00 crore. The company maintains unencumbered cash and bank balances of Rs.1.59 crore as on March 31, 2020. The current ratio of the company stood at 1.13 times as on March 31, 2020. The company has high reliance on working capital borrowings due its nature of business with fund based working capital limits remain utilised ~90 percent and non-fund based remain utilised at 100 percent for the nine month period ended December, 2020.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual vis-à-vis its repayments over the medium term, Howbeit the working capital management in the near to medium term will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining its profitability margins.

- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook: Stable

Acuite believes that GMPL will maintain a 'Stable' outlook in the near to medium term on account of its established presence in dairy industry, experience of the promoters in the business and supported by strong procurement capability and distribution network. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in its scale of operations, 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, decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher-than-expected increase in debt-funded capex or working capital requirements resulting in deterioration in the overall capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	693.29	597.47
PAT	Rs. Cr.	7.64	6.17
PAT Margin	(%)	1.10	1.03
Total Debt/Tangible Net Worth	Times	1.09	1.03
PBDIT/Interest	Times	2.91	2.49

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
05-Feb-2021	Cash Credit	Long Term	60.00	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – I	Long Term	1.38	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – II	Long Term	5.09	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – III	Long Term	6.70	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – IV	Long Term	3.20	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – V	Long Term	10.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.63	ACUITE BBB- / Stable (Assigned)
19-Nov-2019	Cash Credit	Long Term	60.00	ACUITE BBB- / Stable (Reaffirmed)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Aug-2019	Term Loan – I	Long Term	1.54	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – II	Long Term	6.03	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – III	Long Term	7.49	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – IV	Long Term	4.94	ACUITE BBB- / Stable (Reaffirmed)
	Term Loan – V	Long Term	10.00	ACUITE BBB- / Stable (Assigned)
01-Jun-2018	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)
20-Aug-2019	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	8.18	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	10.60%	Not Applicable	60.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan – I	May, 2014	9.60%	November, 2021	1.13 (Revised from 1.38)	ACUITE BBB- / Stable (Reaffirmed)
Term Loan – II	March, 2016	9.60%	September, 2023	4.77 (Revised from 5.09)	ACUITE BBB- / Stable (Reaffirmed)
Term Loan – III	December, 2018	9.60%	May, 2024	6.39 (Revised from 6.70)	ACUITE BBB- / Stable (Reaffirmed)
Term Loan – IV	August, 2016	9.30%	September, 2021	2.79 (Revised from 3.20)	ACUITE BBB- / Stable (Reaffirmed)

Term Loan – V	November, 2019	9.60%	May, 2027	9.86 (Revised from 10.00)	ACUITE BBB- / Stable (Reaffirmed)
Term Loan – VI	February, 2021	8.50%	February, 2028	16.95	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.19 (Revised from 3.63)	ACUITE BBB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022 – 49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022 – 49294011 rating.desk@acuite.in
Aditya Sahu Analyst – Rating Operations Tel: 022 – 49294055 aditya.sahu@acuite.in	

About Acuité Ratings & Research:

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