Press Release

YASHWANT DUGDH PRAKRIYA LIMITED

March 02, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' **(read as ACUITE B)** on the Rs. 30.00 crore bank facilities of YASHWANT DUGDH PRAKRIYA LIMITED (YDPL). The outlook is **'Stable'**.

Incorporated in 2004, YDPL is engaged in processing of milk and production of various milk products. The day to day operations are carried out by its managing director, Mr. Satyajit Shivajirao Naik along with other directors. Company has its production unit in Shirala, Sangli, Maharashtra with production capacity of 200000 litres per day. It sells its products under the brand name of Sunanda and it has also registered 'Puro' as new brand for export products.

Analytical Approach

Acuité has considered standalone business and financial risk profile of YDPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

  YDPL was incorporated in 2004. The day to day operations are managed by its managing director, Mr. Satyajit Shivajirao Naik along with other directors, Sambhaji Raghunath Patil, Namadev Bapu Patil, Prallad Ankush Patil, Prasad Pandurang Mokashi, Bajirao Babaso Patil, Babasaheb Balku Patil and Juber Bashir Mulla. Management collectively has experience of over three decades in the dairy products industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers.

  Acuité believes that YDPL will continue to benefit from its experienced management and established relationships with customers and suppliers.

- **Moderate working capital operations**

  YDPL has moderate working capital operations marked by low Gross Current Assets (GCA) of 66 days in FY2019 and 54 days in FY2018. Further, the inventory and debtor levels stood at 11 and 46 days in FY2019 as against 14 and 35 days in FY2018, respectively. However, the bank limits are fully utilized for the last six months ending January, 2020.

  Acuité believes that the working capital cycle will continue to remain moderate over the medium term on account of the nature of the business.

Weaknesses

- **Project execution risk**

  The company is setting up a milk powder plant at an estimated cost of Rs.33.14 crore to be funded through equity of Rs. 6.80 crore and term loan of Rs.26.20 crore. The financial closure with banks is yet to take place. The civil work and installation of machinery is expected to commence from April, 2020 and will be completed by September, 2020. Operations are likely to commence from October, 2020. The project is exposed to moderate execution risk which is significantly mitigated by promoter's experience. From an offtake stand point, there is no risk as such since the company has already established its position in market and the product will be consumed by the company internally as well.

However, the revenue pick up of the project is expected to be gradual.

Acuité believes that YDPL's credit performance over the medium term will be exposed to the moderate execution risk and its ability to generate cash flows commensurate with its debt servicing obligations will be critical.

- **Moderate scale of operations and modest profitability**

The revenue of the company has deteriorated at a Compound Annual Growth Rate (CAGR) of 2.21 percent for the last 3 years ended FY2019. The revenue stood at Rs.120.16 crore in FY2018 as against Rs.129.29 crore in the previous year. Further, the revenue marginally grew by ~2.28 percent in FY2019 and stood at Rs.122.90 crore. Further, the operating margins stood modest at 1.47 per cent in FY2019 as against 1.26 per cent in FY2018. Profit after Tax (PAT) margins have also stood modest at 0.02 per cent in FY2019 and in FY2018.

Acuité believes that the scale of operations will remain stagnant until new milk powder project's commercial operations does not commence. Post commencement of commercial operations, the turnover is expected to improve.

- **Average financial risk profile**

The financial risk profile of YDPL is average marked by modest net worth, moderate debt protection measures and high gearing. The net worth stood modest at Rs.2.75 crore as on 31 March, 2019 as against Rs.2.72 crore in the previous year. The total debt as on 31 March, 2019 of Rs.14.73 crore majorly comprises of term loan of Rs.0.66, unsecured loans of Rs.3.66 crore and working capital facility of Rs.10.41 crore. Interest Coverage Ratio (ICR) stood at 1.47 times for FY2019 as against 1.43 times for FY2018. Debt Servicing Coverage Ratio (DSCR) stood at 1.45 times for FY2019 as against 1.40 times for FY2018. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 8.37 times as on 31 March, 2019 as against 6.97 times as on 31 March, 2018. Net cash accrual to total debt (NCA/TD) stood at 0.04 times for FY2019 and for FY2018.

Acuité believes that financial risk profile will remain average, however, it will further get stretched in FY2021 due to debt funded capital expansion which company has planned.

Rating Sensitivity

- Significant Increase in scale of operations along with the profitability.
- Successful commissioning of the milk powder project.

Material Covenants

None.

Liquidity Position: Poor

YDPL has poor liquidity marked by modest net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.0.58 crore in FY2019 as against Rs.0.46 crore in FY2018 and Rs.0.45 crore in FY2018, while its maturing debt obligation was Rs0.18 crore in FY2019, in FY2018 and in FY2017. The company's working capital operations are comfortable as marked by low gross current asset (GCA) days of 66 in FY2019. However, working capital borrowings are fully utilized during the last 6 months' period ended January, 2020. The company maintains unencumbered cash and bank balances of Rs.0.89 crore as on March 31, 2019. The current ratio of the company stands at 1.19 times as on March 31, 2019.Acuité believes that liquidity will remain poor, due to debt funded capital expansion which company has planned.

Outlook: Stable

Acuité believes that YDPL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in YDPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	122.90	120.16
PAT	Rs. Cr.	0.03	0.02
PAT Margin	(%)	0.02	0.02
Total Debt/Tangible Net Worth	Times	1.73	2.47
PBDIT/Interest	Times	1.47	1.43

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria
• Default Recognition - 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/criteria-complexity-levels.htm

Rating History (Upto last three years)
None.

*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	8.00	ACUITE B/Stable
Term Loan	28-02-2019	10.75%	30-06-2022	0.51	ACUITE B/Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	21.49	ACUITE B/Stable

Contacts

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About Acuité Ratings & Research:

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