

Press Release

Masani A2 Milk And Manure Private Limited

October 12, 2021



Rating Assigned

Total Bank Facilities Rated	Rs.10.00 Cr
Long Term Rating	ACUITE B/Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs. 10.00 Cr bank facilities of Masani A2 Milk and Manure Private Limited (MAMMPL). The outlook is '**Stable**'.

The rating on MAMMPL takes cognizance of company's project approval under the Banglashree Scheme by the Govt. of West Bengal and high demand of A2 milk buoyed by Govt. of India cow conservation program of "Rashtriya Gokul Mission". These strengths are, however, constrained due to significant project implementation risk and vulnerability to timely receipt of subsidies.

About the company

Masani A2 Milk and Manure Private Limited (MAMMPL) is a Siliguri based company, incorporated in the year 2020 by Mr. Amit Agarwal and Mrs Sangeeta Poddar. MAMMPL will be one of its kind modern desi cow dairy farming project aiming to supply A2 milk which is cow milk from the Indian desi cow breeds, mainly catering to the local regions of North Bengal through the online platform of milkman.com under the brand 'Moovana Milk'. It will be milking by automated system and packed to make it conveniently available to consumers in association with the Swedish group-DeLaval, a pioneer name in the field of Dairy Farming Technology. The company has also plans to sell the by-products like, ghee, manure and vermi-compost.

Analytical Approach

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

Key Rating Drivers

Strengths

- **High demand of A2 milk buoyed by GOI conservation program**

The global A2 milk market is expected to expand at a CAGR of over 10.3% till 2031, since the rapid growth in demand is driven by legion benefits of A2 milk which is free from antibiotics and hormones. It also is enriched with Omega-3 which reduces the cholesterol levels and is effective in preventing cancer. Acuité believes awareness regarding health benefits of A2 milk will continue driving its sales. Further, under the conservation program "Rashtriya Gokul Mission" the Govt. of India have emphasized the need of protection and conservation of indigenous breeds, the primary source of this A2 milk. Milkman will provide services to MAMMPL through their website, which would enable the company to reach out to its end user, creating hubs for distribution channels, managing delivery to the end customer, transport management and/or listing and manage its products on the Milkman mobile application in accordance with the terms of the agreement between both the parties. Acuité believes the promotion will benefit the company going forward, resulting in steady growth in the scale of operations and strengthening the distribution network. Hence, the demand risk perceived is low.

The project is also eligible for capital and interest subsidies along with waiver on electricity duty and subsidies on power and energy efficiency. However, the company is also exposed to delays in subsidy payments from the government, leading to higher reliance on short-term working capital debt. Acuité believes any delay in the disbursement of subsidy on account of under-budgeting and any regulatory changes will remain key rating sensitivity factors.

Weakness

- **Significant project implementation risk and funding risk**

MAMMPL is going to do desi cow dairy farming project aiming to supply A2 milk which is scheduled to start by April'22 at an estimated fund outlay of Rs.11.72 crores. The said project cost is expected to be funded with Rs.9.00 crores from bank loans and the balance from promoter's contribution. So far, the management has spent around Rs0.50 Cr from own funds in acquiring necessary approvals, long term advances and civil work of shed and walling. Since the project's success is subject to approval of facilities from bank, the said project is exposed to significant funding risk. Acuité believes that the timely completion of the project at the envisaged cost would be a key monitorable.

- **Below average financial risk profile**

The company's financial risk profile is expected to remain below average marked by low networth and high gearing over the medium term. The tangible net worth of the company stood low at Rs.0.10 crores as on 31st March, 2021 (Provisional) but it is expected to improve going forward due to equity infusion by the promoters. Gearing of the company will increase and is expected to remain at high levels in FY2023-24 as the company plans to avail long term facility from bank for its cows, plant and machinery purchase and installation. The total cost of project is Rs.11.72 Cr which is expected to be funded partly through Rs.9.00 Cr term loan from Indian Bank and remaining from promoter's contribution. With this the gearing level is expected to rise to 7.43 times in FY22. The financial closure is yet to be achieved. The promoters are expected to extend unsecured loans to the tune of about Rs.1.72 Cr. The debt protection metrics of the company is expected to remain strong in FY2023-24. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) is expected to remain high over the medium term, but if the unsecured loans from the promoters remain in the business as quasi equity then the ratio will be not increase as much. Acuité believes that going forward the financial risk profile of the company is expected to be below average due to leveraged capital structure over the medium term, backed by steady accruals and no major debt funded capex plans.

- **Highly competitive Industry and susceptible to changes in government regulations**

The dairy industry is highly fragmented with large number of unorganized players. The company is also likely to face competition from the local brand 'Godhuli', which distributes unprocessed milk to the customers. Moreover it is also susceptible to government intervention in regulation of milk prices.

Rating Sensitivity

- Timely realization of subsidy from Government.
- Timely commencement of the project within the stipulated cost.

Material Covenant

None

Liquidity Profile: Stretched

The net cash accruals of the company is expected to be 1-1.5 Cr in FY2023-24 against yearly debt obligation of Rs 0.99 crore, over the medium term. The cash and bank balances of the company stood at Rs.0.06 crores in FY2021 (Provisional) and is expected to increase gradually as the business will scale up in the medium term. Acuité believes that going forward the liquidity position of the company will remain moderate and hence a key monitorable over the medium term due to leveraged capital structure and presence of funding risk.

Outlook: Stable

Acuité believes that MAMMPL will maintain a 'Stable' outlook on the basis of the high demand of A2 milk at present day. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margin or improvement in liquidity position. Conversely, the outlook may be revised to 'Negative' in case of dip in revenue and profitability or any higher than expected capex undertaken leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	-	-
PAT	Rs. Cr.	-	-
PAT Margin	(%)	-	-

Total Debt/Tangible Net Worth	Times	5.14	-
PBDIT/Interest	Times	-	-

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE B/Stable (Assigned)

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About Acuité Ratings & Research

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