

January 08, 2016

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	4.79	SMERA BB/Stable (Assigned)
Term Loan	0.15	SMERA BB/Stable (Assigned)
Cash Credit (Proposed)	1.71	SMERA BB/Stable (Assigned)
Term Loan (Proposed)	2.00	SMERA BB/Stable (Assigned)

SMERA has assigned a rating of '**SMERA BB**' (read as **SMERA double B**) to the abovementioned bank facilities of Gokul Dairy Products (GDP). The outlook is '**Stable**'. The rating is supported by the company's experienced management, comfortable coverage indicators and working capital cycle. However, the rating is constrained by the stagnant revenue trend, high gearing and low net worth base. The rating is also constrained due to the debt funded capital expenditure (capex) plan and intense competition in the dairy sector.

Rating Sensitivity Factors

- Increase in scale of operations while maintaining profitability
- Improvement in the capital structure (Gearing)
- Deterioration in the working capital cycle

Outlook - Stable

SMERA believes that GDP will continue to benefit over the medium term. 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' in case of failure in achieving the scalability amidst intensifying competition in its area of operation or deterioration of the financial risk profile owing to higher-than-expected increase in debt-funded capex or working capital requirements.

About the Firm

Gokul Dairy Products (GDP), established in 2007 by Mr. K. N. Krishna Murthy is engaged in the manufacturing and processing of milk products such as ghee, paneer, curd among others. These are sold under the 'Kaveri' brand name.

For FY2014-15, GDP reported profit after tax (PAT) of Rs.0.45 crore on operating income of Rs.50.18 crore as against PAT of Rs.0.57 crore on operating income of Rs.50.13 crore. For FY2014-15, the tangible net worth stood at Rs.3.48 crore as against Rs.3.53 crore in the previous year.

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