

Press Release
Gokul Dairy Products

June 04, 2018

Rating Downgraded



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE D (Downgraded)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded a long term rating of Gokul Dairy Products to '**ACUITE D**' (Read as **ACUITE D**) from '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.12.00 crore bank facilities.

The downgrade reflects delay in debt servicing by more than 10-15 days, and instances of continuous overdrawals in cash credit facility for more than 30 days for last three months through April 2018.

Gokul Dairy Products (GDP) is a Karnataka based partnership firm established in the year 2007. It is engaged in the business of processing of milk and manufacturing of value added products like ghee, paneer, curd, butter among others. The firm has an installed processing capacity of one lakh liters per day, and markets under the brand name 'Kaveri'.

Key Rating Drivers

Weaknesses

• **Delays in meeting debt obligations**

The rating reflects the delays in servicing of the debt by more than 10-15 days; also, the ratings are constrained by instances of continuous overdrawals for more than 30 days for last three months through April 30, 2018. The stretch in the liquidity is owing to stagnant revenues for the last four years through FY2018 (refers to financial year, April 1st to March 31st) at around Rs.52.0 crores, meagre cash accruals and continuous capex of around Rs.1.0 crore over the last two years.

• **Below average financial risk profile**

GDP's financial risk profile is below average marked by high gearing of 2.37 times as on 31 March, 2018 (Provisional) as against 2.81 times as on 31 March, 2017. Total outside liabilities to total networth is moderately high at 3.53 times for the last three years through FY2018, through underpinned by comfortable interest coverage ratio at 2.50 times and 1.79 times in FY2018 and FY2017 respectively. Its current ratio is at 1.48 times in FY2018, majorly comprising of inventory of Rs.2.34; it has outstanding debtors of Rs.1.44 crore which are for more than six months in FY2017, though it has improved from Rs.2.87 in 2016. Also its GCA is high at 111 days in 2017 in dairy industry, with receivable days of 88. Acuite believes that with stagnant revenues and operating margins at around 5.5-6.5 per cent is expected to constrain the financial risk profile.

• **Fragmented and competitive nature of business**

The Company is operating in a competitive and fragmented nature of industry. There are several large branded players in the milk processing business in organized as well as unorganized players which constrains the pricing flexibility, as well as procurement of milk for scaling up of the operations. Acuite believes that the competitive nature is expected to continue to constrain the players profitability and operations.

Strengths

• **Experienced management**

GDP was established in 2007. The firm was promoted by Mr. K. N. Krishna Murthy who possesses

over two decades of experience in the dairy industry. He looks after the day to day operations of the firm. His rich experience has helped the firm to penetrate into the market under the brand name 'Kaveri'.

• **Improvement in operating margins:**

Operating margins of GDP has improved from 4.04 percent in FY2016 to 6.56 percent in FY2018 on account of better pricing on value added products such as ghee and milk cream. Further, increase in operating margins led to improvement in coverage indicators.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Gokul Dairy Products to arrive at the rating.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	52.16	52.12	50.18
EBITDA	Rs. Cr.	2.70	2.11	2.03
PAT	Rs. Cr.	0.57	0.53	0.45
EBITDA Margin	(%)	5.18	4.04	4.05
PAT Margin	(%)	1.09	1.02	0.91
ROCE	(%)	15.52	14.05	27.49
Total Debt/Tangible Net Worth	Times	2.81	2.47	2.22
PBDIT/Interest	Times	1.79	2.06	2.19
Total Debt/PBDIT	Times	4.37	4.26	3.79
Gross Current Assets (Days)	Days	111	95	83

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

None

Any other information

"Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups"

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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 Mar, 2017	Cash Credit	Long Term	4.79	ACUITE BB/Stable (Reaffirmed)
	Term Loan	Long Term	0.10	ACUITE BB/Stable (Reaffirmed)
	Proposed cash Credit	Long Term	5.11	ACUITE BB/Stable (Reaffirmed)

	Proposed Term Loan	Short Term	2.00	ACUITE BB/Stable (Reaffirmed)
08 Jan, 2016	Cash Credit	Long Term	4.79	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	0.15	ACUITE BB/Stable (Assigned)
	Proposed cash Credit	Long Term	1.71	ACUITE BB/Stable (Assigned)
	Proposed Term Loan	Short Term	2.000	ACUITE BB/Stable (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE D (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.68	ACUITE D (Downgraded)
Over Draft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE D (Downgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.57	ACUITE D (Downgraded)

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About Acuité Ratings & Research:

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