

Press Release

Gokul Dairy Products

August 21, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE D**' (read as **ACUITE D**) on the Rs.12.00 Crore bank facilities of GOKUL DAIRY PRODUCTS.

The reaffirmation of rating reflects regular delays in debt servicing by more than a week, and overdrawals in its cash credit account for the past seven months through July 2019; delays are owing to stretch in its liquidity and stagnant revenues.

Gokul Dairy Products (Gokul) is a Karnataka-based partnership firm, established in the year 2007. It is engaged in the business of processing and sale of milk and value added products like ghee, paneer, curd, butter, among others. The firm has an installed capacity of 1,00,000 liters per day. However, utilisation is around 50-60 per cent. The firm sells its products under the 'Kaveri' brand.

Analytical Approach

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

Key Rating Drivers:

Strengths

- **Experienced management**

Gokul was established in 2007. The firm has been 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 form an established dealer and agent network in Karnataka.

Weaknesses

- **Delays in meeting debt obligations**

The rating reflects the delays in servicing of the term loans by more than a week over the past seven months through July 2019, though the same has improved to about four days recently. Also, the cash credit account runs into overdraws, though not for more than 3 days. The stretch in the liquidity is owing to stagnant revenues for the last four years through FY2019 at around Rs.53.00 crores and meagre cash accruals.

- **Below average financial risk**

The financial risk profile of the firm is below average marked by high gearing (Debt to Equity ratio), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Gearing and TOL/TNW stood at 2.17 times and 3.21 times as on 31 March, 2019 as against 2.35 times and 3.06 times as on 31 March, 2018. Net worth is modest at Rs.4.48 crore as on 31 March, 2019 (Prov) as against Rs.4.81 crore as on 31 March, 2018. The decrease in networth is the result of capital withdrawal of Rs.0.33 Cr. Of the total debt of Rs.9.73 crore as on 31 March, 2019, unsecured loan constitutes of Rs.1.38 crore and short term debt of Rs.7.86 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.29 times and 0.14 times, respectively in FY2019 (Prov). The firm reported cash accruals of Rs.1.36 crore for FY2019 (Prov). Further, repayment obligations are expected to be at Rs.0.21 Cr against annual cash accruals of about Rs.1.36 crore. Acuite believes that stagnant revenues and operating margins is expected to constrain the financial risk profile.

• Working intensive operations

The operations of the firm are moderately working capital intensive marked by high gross current assets (GCA) at 110 days in FY2019 (Prov.) though improved from 114 days in FY2018. High GCA days is on account of moderately high debtors, which stood at 81 days in FY2019 (Prov.) as against 90 days in FY2018. Inventory days is stable and stood at 17 days in FY2019 (Prov.) and FY2018. Bank limit utilisation of GDP is fully utilised for the last six months through June 2019. Acuite believes that the operations are expected to be moderately working capital intensive over the medium term.

• Fragmented and competitive nature of business

The firm is operating in competitive and fragmented nature of industry. There are several players engaged in the milk processing business in organised and unorganised sector. Hence, the firm faces pricing pressure from other manufacturer of milk products. This will result in the thin profitability of the firm.

Liquidity Position:

Liquidity of the firm is stretched marked by moderate cash accruals of Rs 1.36 Cr; its accruals are expected to be around Rs.1.30 crore over the medium term against minimal repayment obligations of Rs.0.21 over the medium term. However, working capital intensive operations with receivables of about 90 days and full utilisation of its working capital limits constrains the liquidity. The current ratio stood at 1.29 times in FY2019 (Prov). Acuite believes that the liquidity is expected to be stretched over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	53.36	52.20	52.16
EBITDA	Rs. Cr.	2.83	2.49	2.70
PAT	Rs. Cr.	0.71	0.34	0.57
EBITDA Margin	(%)	5.30	4.77	5.18
PAT Margin	(%)	1.33	0.65	1.09
ROCE	(%)	14.42	11.58	15.52
Total Debt/Tangible Net Worth	Times	2.17	2.35	2.81
PBDIT/Interest	Times	2.29	1.79	1.79
Total Debt/PBDIT	Times	3.44	4.53	4.37
Gross Current Assets (Days)	Days	110	114	111

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-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
04-June-2018	Cash Credit	Long Term	1.75	ACUITE D (Downgraded)
	Term Loan	Long Term	0.68	ACUITE D (Downgraded)
	Over Draft	Long Term	6.00	ACUITE D (Downgraded)
	Proposed Bank Facility	Long Term	3.57	ACUITE D (Downgraded)
20-March-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	Long 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	Long Term	2.00	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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE D (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.68	ACUITE D (Reaffirmed)
Over Draft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE D (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.57	ACUITE D (Reaffirmed)

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About Acuité Ratings & Research:

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