

## Press Release

### Gokul Dairy Products

January 27, 2020



### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs. 12.00 Cr.
<b>Long Term Rating</b>	ACUITE B / Outlook: Stable (Upgraded from ACUITE D)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE B**' (**read as ACUITE B**) from '**ACUITE D**' (**read as ACUITE D**) on the Rs. 12.00 crore bank facilities of GOKUL DAIRY PRODUCTS. The outlook is '**Stable**'.

The rating upgrade is on account of regularization of account and timely repayment of term loan principal and servicing of interest.

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

Acuité has considered standalone financials and business risk profiles of Gokul to arrive at this rating.

### Key Rating Drivers

#### Strengths

- **Experienced management and long track record of operations**

Gokul was established in 2007. The firm is promoted by Mr. K. N. Krishna Murthy, who has 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.

Acuité believes that the company will benefit from the experience of the management and established network over the medium term.

#### Weaknesses

- **Below average financial risk profile**

The financial risk profile of the firm is below average marked by modest net worth, moderate gearing (Debt to Equity ratio), total outside liabilities to total net worth (TOL/TNW), debt protection metrics and weak debt service coverage ratio (DSCR). Net worth is modest at Rs.5.06 crore as on 31 March, 2019 as against Rs.4.81 crore as on 31 March, 2018 due to modest accretions to reserves. Gearing and TOL/TNW stood at 1.89 times and 2.65 times as on 31 March, 2019 as against 2.35 times and 3.06 times as on 31 March, 2018. Of the total debt of Rs.9.58 crore as on 31 March, 2019, long term debt constitutes Rs.1.16 crore, unsecured loan of Rs.0.65 crore and short term debt of Rs.7.77 crore. Revenues of the firm stood stagnant around 52-53 crore for the last three years through FY2019 and operating margins declined from 5.18 percent in FY2017 to 3.85 percent in FY2019. The same led to moderate interest coverage ratio and net cash accruals to total debt at 1.86 times and 0.08 times respectively in FY2019. Debt/EBITDA stood high at 4.64 times in FY2019 as against 4.53 times in FY2018. DSCR stood weak at 0.88 times in FY2019 and 0.91 times in FY2018. Acuité believes that stagnant revenues and decline operating margins is expected to constrain the financial risk profile of the firm.

- **Working capital intensive operations**

Operations of the firm are moderately working capital intensive marked by high gross current assets (GCA) at 105-114 days during the last three years through FY2019. High GCA days is on account of stretch in debtors which stood around three months during the last three years through FY2019. Inventory days are stable and stood at moderate around 17 days during the same period. Bank limits of Gokul are fully utilized for the last 12 months ended December, 2019. Acuité believes that the operations are expected to be moderately working capital intensive over the medium term.

- **Fragmented and competitive industry**

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.

**Rating Sensitivities**

- Substantial increase in scale of operations and profitability.
- Improvement in working capital cycle

**Liquidity position: Stretched**

Liquidity of the firm is stretched marked by weak cash accruals of Rs.0.8-0.9 crore in the last two years through FY2019 against the repayment obligations of over Rs.1.1-1.2 crore. Cash accruals are expected modest in the range of Rs.0.8-0.9 crore against the repayment obligations of around Rs.0.5-0.6 crore over the medium term. Operations are working capital intensive with GCA of 105 days in FY2019. Bank limits are fully utilized for the last 12 months through December 2019. Cash and bank balances as on 31 March 2019, stood at Rs.0.15 crore. Current ratio stood at 1.28 times in FY2019. Acuité believes that the liquidity is expected to be stretched over the medium term.

**Outlook: Stable**

Acuité believes that Gokul will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than expected growth in revenues and profitability or stretch in working capital cycle leading to deterioration in the firm's financial risk and liquidity.

**About the Rated Entity - Key Financials**

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	53.33	52.19
PAT	Rs. Cr.	0.37	0.34
PAT Margin	(%)	0.70	0.65
Total Debt/Tangible Net Worth	Times	1.89	2.35
PBDIT/Interest	Times	1.86	1.79

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

Not Applicable

**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
21-Aug-2019	Cash Credit	Long Term	1.75	ACUITE D (Reaffirmed)
	Term Loan	Long Term	0.68	ACUITE D (Reaffirmed)
	Over Draft	Long Term	6.00	ACUITE D (Reaffirmed)
	Proposed Bank Facility	Long Term	3.57	ACUITE D (Reaffirmed)
04-Jun-2018	Cash Credit	Long Term	1.75	ACUITE D (Downgraded from ACUITE BB/Stable)
	Term Loan	Long Term	0.68	ACUITE D (Downgraded from ACUITE BB/Stable)
	Over Draft	Long Term	6.00	ACUITE D (Downgraded from ACUITE BB/Stable)
	Proposed Bank Facility	Long Term	3.57	ACUITE D (Downgraded from ACUITE BB/Stable)
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	Long Term	2.00	ACUITE BB / Stable (Reaffirmed)

**\*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	9.25	ACUITE B / Stable (Upgraded)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.42	ACUITE B / Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.33	ACUITE B / Stable (Upgraded)

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### About Acuité Ratings & Research:

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