

April 26, 2024^(Revised)

S.P.Mani and Mohan Dairy (India) Private Limited: Placed on rating watch with developing implications

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|--------------------------------------|-------------------------------------|---|
| Long-term – Fund-based – Cash Credit | 13.50 | 15.00 | [ICRA]BBB-; Rating watch with developing implications |
| Long-term – Fund-based – Term Loan | 13.78 | 16.37 | [ICRA]BBB-; Rating watch with developing implications |
| Long-term – Unallocated | 17.72 | 13.63 | [ICRA]BBB-; Rating watch with developing implications |
| Total | 45.00 | 45.00 | |

*Instrument details are provided in Annexure-I

Rationale

ICRA has placed the ratings outstanding on the bank lines of S.P. Mani and Mohan Dairy (India) Private Limited (SPMMDPL) on watch with developing implications. The rating action follows the company's plans on group restructuring with planned merger of SPMMDPL and Amirthaa Dairy Private Limited (trading arm of the group). While the exact contours of the restructuring plan is not yet finalized, the restructuring is aimed at strengthening the operational profile of the group. ICRA will continue to monitor the development on this front and assess the impact on the credit profile as more clarity emerges.

The ratings outstanding considers the promoters' long standing experience in the domestic milk industry and the established presence of its brand, Amirthaa, in Tamil Nadu with a robust dealer and distribution network. The company's revenues improved by 33% in FY2023 and 14% in FY2024 on account of improved realisations and demand for value added products. ICRA expects the company's revenue to remain supported by improved demand for value added products coupled with the company's entry to newer geographies and focus on retail segment. The company's operating margin contracted to 2.7% in FY2023 from 3.4% in FY2022 owing to higher procurement prices, but recovered to 3.6% in FY2024 on account of higher proportion of value added products' revenues. With the proposed restructuring plan, the company expects the margin profile to improve over long-term. The company's established procurement base of dairy farmers, supported by a network of bulk coolers and chilling centers ensure stable supply of raw milk.

However, the rating remains constrained by the moderate scale of operations, limited geographical diversification and intense competition prevalent in the organised milk segment in the Tamil Nadu market, which restricts its pricing flexibility. The rating factors in the risks arising from vulnerability of the company's scale and profitability to agro-climatic and environmental factors. The impact of proposed restructuring on consolidated leverage metrics will be a critical monitorable.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the dairy industry – SPMMDPL's promoters have been associated with the milk industry since 1984 and have been selling milk and milk products under the brand, Amirthaa, which is an established brand in Erode and nearby regions. The extensive experience of the promoters has helped the company establish healthy relationships with suppliers and customers.

Well-established milk procurement base – Over the years, SPMMDPL’s business developed into a direct farmer procurement model. They have strong association with farmers and provide them with subsidised cattle feed, free doctors’ assistance, timely payments, etc, which ensure adequate supply of raw milk at competitive prices. The company has ten owned chilling centres, with a total chilling capacity of 2.70 lakh litres per day for procuring raw milk.

Established dealer and distribution network – The company markets its products through a well laid distribution network of around 350 distributors and company-appointed sales personnel across all districts in Tamil Nadu and parts of Kerala, Karnataka and Andhra Pradesh. The company’s revenue is primarily derived from the B2C segment, especially from the western/ central Tamil Nadu market. The company continues to witness a healthy demand for milk and other value-added dairy products like *ghee* (clarified butter), butter, curd, and flavoured milk, which is expected to result in improved revenues and margins for the company in FY2025, thus improving the overall coverage metrics.

Credit challenges

Moderate scale of operations – Although the scale of operations improved in FY2024, the same remains moderate. The company has recorded a revenue of Rs. 485.7 crore in FY2024 (provisional) (14% YoY growth). Improved demand for value-added products and increase in realisation of milk have resulted in a healthy revenue growth for the company in FY2024. Moreover, the increased demand for value-added products and entry into newer markets are expected to aid the scale of growth in the near term.

Vulnerability of earnings to Government regulations and environmental conditions – SPMMDPL’s revenues and earnings are susceptible to various agro-climatic factors such as drought and cattle diseases, which may adversely impact milk production. Further, the margins are susceptible to changes in climatic conditions, with excess supply of milk during the flush seasons, resulting in a decline in skimmed milk prices.

Intense competition in the organised dairy industry – SPMMDPL faces intense competition from the unorganised sector, comprising a staggering 70% of the industry, with further competition from local cooperatives and other private dairies within the organised sector. This has resulted in limited pricing flexibility for the company.

Liquidity position: Adequate

SPMMDPL’s liquidity is **adequate** with expected retained cash flows from operations of ~Rs. 10-15 crore in FY2025 along with cash and bank balance of Rs. 3.5 crore and unutilised working capital lines of ~Rs. 5.3 crore, as of March 31, 2024. Against these sources of funds, the company has an annual repayment obligation of Rs. 3.7 crore and planned capex of Rs. 5-6 crore over the next 12 months.

Rating sensitivities

Positive factors – The rating watch could be resolved with better clarity on the planned merger between SPMMDPL and Amirthaa Dairy Private Limited, and its impact on the overall credit profile. ICRA could upgrade the ratings if the company demonstrates an improvement in its revenues, earnings, and liquidity position on a sustained basis. Specific credit metrics that could lead to an upgrade include an interest cover of over 5.0 times on a sustained basis.

Negative factors – The rating watch could be resolved with better clarity on the planned merger between SPMMDPL and Amirthaa Dairy Private Limited and its impact on overall credit profile. ICRA could downgrade the ratings if the company witnesses sharp deterioration in revenues, earnings, cash flows or liquidity profile on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Not applicable |
| Consolidation/Standalone | Standalone |

About the company

S.P. Mani & Mohan Dairy India Private Limited manufactures and supplies milk and milk products in southern India, spanning Tamil Nadu, Kerala, Karnataka and parts of Andhra Pradesh. It has an ISO 22000-certified dairy located at Erode (its main dairy). Although it was incorporated in 2011, its promoters have an experience of 40 years in the milk industry.

The company has 10 owned chilling centres in and around 100 km of Erode with a total chilling capacity of 2.70 lakh per day. It has over 1,100 village-level milk collection centres and associations with approximately 15,000 farmers. It has a milk processing capacity of 4.50 lakh litres per day. The company has branch offices in Madurai and Tirunelveli and employs 700 people (including 250 casual employees). SPMMDPL manufactures and sells its products under the brand, Amirthaa. Its products include milk, curd, butter, *ghee*, SMP and flavoured milk.

Key financial indicators (audited)

| S.P. Mani and Mohan Dairy (India) Private Limited | FY2022 | FY2023 | FY2024* |
|--|--------|--------|---------|
| Operating income | 321.3 | 427.2 | 485.7 |
| PAT | 0.3 | 0.8 | 4.7 |
| OPBDIT/OI | 3.4% | 2.7% | 3.6% |
| PAT/OI | 0.1% | 0.2% | 1.0% |
| Total outside liabilities/Tangible net worth (times) | 1.3 | 1.2 | 1.5 |
| Total debt/OPBDIT (times) | 2.4 | 2.4 | 2.1 |
| Interest coverage (times) | 3.7 | 4.3 | 4.3 |

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. Crore; *Provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

| | Instrument | Current Rating (FY2025) | | | | Chronology of Rating History for the past 3 years | | |
|---|--------------------------------------|-------------------------|--------------------------|---|---|---|-------------------------|-------------------------|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Mar 31, 2024 (Rs. crore) | Date & Rating | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | April 26, 2024 | | | |
| 1 | Long Term - Fund Based – Cash Credit | Long-term | 20.50 | 15.20 | [ICRA]BBB-; Rating watch with developing implications | - | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) |
| 2 | Long Term - Fund Based – Term Loan | Long-term | 22.28 | 22.28 | [ICRA]BBB-; Rating watch with developing implications | - | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) |
| 3 | Long Term – Unallocated | Long-term | 2.22 | - | [ICRA]BBB-; Rating watch with developing implications | - | [ICRA]BBB-(Stable) | [ICRA]BBB-(Stable) |

&= Under Watch with Developing Implications

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|--------------------------------------|----------------------|
| Long Term - fund based - Cash Credit | Simple |
| Long Term - fund based – Term Loan | Simple |
| Long Term - Unallocated | NA |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------|------------------|-------------|----------|--------------------------|---|
| NA | Cash Credit | - | - | - | 20.50 | [ICRA]BBB-; Rating watch with developing implications |
| NA | Term Loan | May 2020 | - | May 2027 | 3.25 | [ICRA]BBB-; Rating watch with developing implications |
| NA | Term Loan | Oct 2022 | - | Oct 2029 | 5.95 | [ICRA]BBB-; Rating watch with developing implications |
| NA | Term Loan | Aug 2021 | - | Aug 2031 | 8.43 | [ICRA]BBB-; Rating watch with developing implications |
| NA | Term Loan | Oct 2023 | - | Oct 2028 | 4.65 | [ICRA]BBB-; Rating watch with developing implications |
| NA | Unallocated | NA | NA | NA | 2.22 | [ICRA]BBB-; Rating watch with developing implications |

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not applicable

Corrigendum

The ratio Total outside liabilities/Tangible net worth (times) for FY2022, FY2023 and FY2024 (provisional) has been corrected in the Key Financial Indicators table.

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