

Prabhat Dairy Limited

| Instrument | Amount | Rating Action |
|---|------------------|-------------------------------------|
| Long term, Fund based limits – Term Loan | Rs. 37.50 crore | [ICRA] A+(Stable) Assigned |
| Long term, Fund based limits – Cash Credit / WCDL | Rs. 110.00 crore | [ICRA] A+(Stable) Assigned |
| Short term, Non Fund based limits | Rs. 20.00 crore | [ICRA] A1 Assigned |
| Long term / Short term unallocated limits | Rs. 12.50 crore | [ICRA] A+(Stable)/[ICRA]A1 Assigned |

ICRA has assigned a the long term rating [ICRA]A+ (pronounced ICRA A plus) with Stable outlook to the Rs 147.50 crore¹ fund based facilities and a short term rating of [ICRA]A1 (pronounced ICRA A one) to the Rs. 20.00 crore non fund based facilities of Prabhat Dairy Limited (PDL). ICRA has also assigned a long term/ short term rating of [ICRA]A+/ Stable/ A1 to the Rs. 12.50 crore unallocated limits.

ICRA has taken a consolidated view of Prabhat Dairy Limited and its 100% step down subsidiary Sunfresh Agro Industries Private Limited (together referred as Prabhat Group) while arriving at the ratings given strong management, business and financial linkages.

The assigned ratings to the Prabhat group take into consideration the healthy revenue growth at ~25% CAGR since past 4 years owing to new product addition over the years. The FY2016 revenue growth of 17% is supported by healthy volume sales despite decline in realization across major milk product categories due to decline in international dairy product prices. The group has been able to maintain a healthy operating profitability of over 10% over the years on back of group's ability to maintain positive contribution margins by curtailing the raw milk procurement cost and strategically shifting its product mix with increased focus towards high margin bearing value added products like butter, ghee, SMP etc as against traditional bulk milk sales. The capital structure of the group improved significantly in FY2016 as reflected in healthy debt protection and coverage indicators owing to pre-payment of debt of Rs. 185.00 crore through the IPO proceeds which resulted in robust gearing of 0.2x. The ratings also favourably factor in established procurement base of Prabhat group among dairy farmers supplemented by wide network of bulk coolers and chilling centers which ensure a regular supply of raw milk, recognized regional brand of 'Prabhat' in pouched milk, butter, ghee etc and diversified product portfolio. ICRA also takes comfort from long standing track record of promoters in dairy industry and established relationship of the group with key institutional clients leading to assured revenues from supply contracts. ICRA believes that going forward; group will continue to benefit from increased focus on value added products along with continued growth in B2B business and increasing presence in B2C segment. Nevertheless, increasing consumption of branded processed milk products and value added dairy products in domestic market on back of higher purchasing power, changing food habits and increasing health awareness will supplement the growth in long term.

The assigned ratings are however constrained by relatively higher working capital intensity owing to higher debtor period going up to 70 days in FY2016. Consistent negative free cash flows and declining ROCE, given the sizable capex over the years coupled with under utilization of installed capacity. Under B2B segment, the group has moderate customer concentration for institutional business, though healthy share of business with the said client, addition of new institutional clients and renewal of supply contracts over the years provides comfort. At retail level, the group's limited brand presence and high geographical concentration also constrains the rating, given ~80% of the retail sales coming from specific regions of Maharashtra which limits the group's scale of operation to moderate. High competitive intensity from organized co-operatives, private players and unorganized players and vulnerability to external factors like weather, disease outbreak etc also constrains the industry. The industry is exposed to government regulations and global demand supply scenario or milk products especially milk powder. Going forward, the ability of the group to maintain healthy profitability, given the recent capex in cheese manufacturing & planned promotional expenses and ensuring adequate capacity utilization for expanded capacities through sustained improvement in procurement base of milk while managing price volatility for milk products remain key sensitivity factors.

¹ 100 lakh = 1 crore = 10 million

Prabhat Group Profile

Incorporated in 1998, Prabhat group is promoted by Ahmednagar based Nirmal family with integrated milk and dairy products manufacturing being the key business area. The group has 15 lac litres per day of milk processing capacity with multi product capabilities. Prabhat offers wide range of products like pasteurized milk, flavoured milk, sweetened condensed milk, UHT milk, yoghurt, dairy whitener, clarified butter (ghee), cheese, paneer, skimmed & whole milk powder, ingredients for baby foods, lassi, chaas and gulab jamun mix. Group's major client includes leading global & domestic FMCG companies like Mondelez, Abbott, Nestle, ITC, Britannia, Future Group, Perfetti, Mother Dairy, Vadilal, Haldiram's, D Mart, Parle, Olam, Lotte etc.

The group has formed two separate entities for benefiting from government policies (Industrial Promotion Scheme – 2007) viz, Sunfresh Agro Industries Private Limited and Cheese Land Agro (India) Private Limited. PDL indirectly holds 100% in SAIPL through shell companies Cheese Land Agro (India) Pvt Ltd.

The group has milk processing capacity of 15 Lacs Litres/ day.

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