

Mula Agro Products Private Limited

August 16, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs crore)	Current Rated Amount (Rs crore)	Rating Action
Long Term – Fund Based Term Loan	0.30	0.00	-
Long Term - Unallocated	0.70	1.00	[ICRA]B+ (Stable); Reaffirmed, removed from non-cooperation
Total	1.00	1.00	

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]B+ (pronounced ICRA B plus) for the Rs. 1.00-crore¹ bank limits of Mula Agro Products Private Limited (Mula)². The outlook on the rating is Stable. Also, the rating is removed from the 'Issuer not cooperating' category.

Rationale

The rating continues to remain constrained by the firm's muted profitability with a major portion of revenues contributed by sale of milk where value addition remains limited. The rating also takes into consideration the decline in operating income(OI) to Rs. 80.68 crore in FY2018 from Rs. 89.25 crore in FY2016. ICRA also notes the susceptibility of the firm's operating margins to adverse fluctuations in milk procurement prices. The rating further considers the intense competition faced by the firm from organised and unorganised players in the dairy industry.

However, the rating reaffirmation considers the extensive experience of the promoters with an operating track record of more than two decades in the dairy industry. The rating also takes into consideration the proximity of the firm to raw milk suppliers which ensures timely receipt of raw milk and unhindered flow of production. ICRA also notes the comfortable capital structure of the firm, supported by low debt levels as reflected by the gearing ratio of 0.15 times as on March 31, 2018.

Outlook: Stable

ICRA believes that Mula will continue to benefit from the extensive experience of its promoters in the dairy industry. Mula's revenues are expected to improve gradually in the near term following an anticipated increase in selling prices of milk. The outlook may be revised to Positive if the company is able to register a significant improvement in OI and the profit margins despite fluctuations in milk procurement prices. The outlook may be revised to Negative if the OI deteriorates in the coming years with an adverse impact on the profitability.

¹100 lakh = 1 crore = 10 million

²For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Vast experience of the promoters spanning over two decades in the dairy industry - Incorporated in 1993, Mula's promoters have extensive experience of more than two decades in the dairy industry, which have enabled the firm to establish its position in the domestic market.

Proximity to raw milk suppliers ensures timely receipt of raw milk - Mula's manufacturing facility is located at Rahuri, the highest milk producing region in Ahmednagar, which ensures timely receipt of raw milk and unhindered flow of production.

Comfortable capital structure supported by low debt levels - The firm's outstanding debt consists only of unsecured loans of Rs. 0.98 crore with no outstanding bank facilities, against a net worth position of Rs. 6.40 crore as on March 31, 2018. Hence it has a comfortable capital structure with a gearing ratio at 0.15 as on March 31, 2018.

Credit challenges

Decline in revenues owing to reduction in capacity utilisation - The firm's operating income reduced by 9.86% to Rs. 80.47 crore in FY2017 from Rs. 89.25 crore in FY2016 and was on similar levels at Rs. 80.68 crore in FY2018. This was because the firm reduced its business in bulk milk, which led to a decline in its capacity utilisation to 65.72% in FY2018 from 86.10% in FY2016.

Muted profitability with majority of revenues contributed by sale of milk where value addition remains limited - The operating margins of the firm have reduced to 2.79% in FY2017 from 3.45% in FY2016 and further to 1.84% in FY2018. This is because of fluctuation in milk procurement prices and low value addition involved in the business of the sale of processed milk.

Intense competition from co-operatives, other private players and the unorganised sector - The dairy industry is highly fragmented and comprises small private dairies, established private players and milk co-operatives which limit the firm's pricing power.

Susceptibility of margins to fluctuations in milk procurement prices - The prices of raw milk vary as per fluctuations in demand of skimmed milk powder (SMP). Thus, an increase in the prices of SMP in the international markets leads to rise in milk procurement prices. But if the prices of packaged milk remain unchanged, it squeezes the profitability margins of companies that are involved in the processing and selling of milk.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Incorporated in 1993, Mula Agro Products Pvt. Ltd. is involved in the processing of milk and manufacturing of milk products. The operations of the company are collectively managed by its directors, who have an experience of over two decades in the dairy industry. The company's manufacturing facility is located at Rahuri, Ahmednagar and has a processing capacity of 100,000 litres per day. The manufacturing facility is well equipped with the requisite infrastructure of collection, chilling, pasteurisation, grading, packaging and storage of milk and milk-derived products.

The firm reported a net profit of ₹0.66 crore on an OI of Rs 80.68 crore in FY2018 and a net profit of Rs 0.88 crore on an OI of Rs 80.47 crore in FY2017.

Key financial indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	80.47	80.68
PAT (Rs. crore)	0.88	0.66
OPBDITA/ OI (%)	2.79%	1.84%
RoCE (%)	27.78%	14.64%
Total Debt/ TNW (times)	0.21	0.15
Total Debt/ OPBDITA (times)	0.44	0.66
Interest Coverage (times)	145.19	906.42

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax;
NWC: Net Working Capital; RoCE: Return on Capital employed; TNW: Tangible Net Worth
Source: Financial statements of Mula and ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating August 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
						July 2016	July 2015	
1 Fund Based Term Loan	Long Term	0.00	-	-	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+	-	
2 Unallocated Limits	Long Term	01.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable); ISSUER NOT COOPERATING	[ICRA]B+	-	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (₹ crore)	Current Rating and Outlook
NA	Unallocated Limits	NA	NA	NA	01.00	[ICRA]B+ (Stable) Source: Mula

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301
ravichandran@icraindia.com

Rupa Pandey

+91 22 6114 3456
rupa.pandey@icraindia.com

Suprio Banerjee

+91 22 6114 3443
supriob@icraindia.com

Viraj Kadwadkar

+91 22 6114 3457
viraj.kadwadkar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 6606 9999

© Copyright, 2018 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents