

Indapur Dairy and Milk Products Ltd.

January 18, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based TL	19.0	56.0	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A- (Stable)
Long Term – Fund Based / CC	59.0	59.0	[ICRA]BBB+ (Stable); Downgraded from [ICRA]A- (Stable)
Long Term / Short Term – Unallocated	33.5	-	-
Short Term – Non Fund Based	8.5	5.0	[ICRA]A2; Downgraded from [ICRA]A2+
Total	120.0	120.0	

*Instrument details are provided in Annexure-1

Rationale

ICRA has taken a consolidated view of Indapur Dairy and Milk Products Ltd. (IDMP) and its 100% subsidiary, Sonai Cattle Feeds Private Limited (SCFPL), while arriving at the ratings, given the strong management, operational and financial linkages shared by them. The company acquired SCFPL in October 2017.

The rating revision takes into consideration lower than expected financial performance of the company in FY2018 characterised by low profitability and stretched coverage indicators. The profitability remained impacted due to subdued realisations for skimmed milk powder (SMP) owing to excess domestic production, low international prices and the inability of the company to pass on the impact to its institutional clients due to relatively lower bargaining power. Substantial inventory stocking coupled with debt of the acquired entity i.e. SCFPL impacted the capital structure and coverage indicators of the company significantly in FY2018. The operating and net margins deteriorated from 6.5% and 2.9% in FY2016 respectively to 3.3% and 0.6% in FY2018. The coverage indicators (TD/OPBDITA) deteriorated from 1.6 times in FY2016 to 4.3 times in FY2018.

ICRA notes that while there has been improvement in profitability during H1FY2019 (OPM margin of 4.1%) supported by subsidies from government, the coverage indicators remain adversely impacted on account of higher interest cost associated with working capital loans. ICRA takes note of Y-O-Y revenue growth of 7.5% in FY2018, majorly due to consolidation of SCFPL revenues acquired by IDMP in FY2018. However, the company's performance is expected to remain modest in FY2019. The average realisations of key dairy products are likely to remain low for FY2019 leading to modest revenue growth for the company. Though the government subsidies coupled with low procurement cost may support the operating profitability to an extent, the net accruals are expected to remain minimal owing to high interest cost for the company during the year. Further, the company's plan to venture into cheese manufacturing segment is likely to impact the capital structure and return indicators in the near term and the working capital intensity in the medium to long term. The timely recovery of the government subsidies also remains important to achieve comfortable liquidity position for the company.

The ratings continue to remain constrained by commoditised nature of operations, highly competitive intensity from organised co-operatives, private players and unorganised players and vulnerability of milk production to external factors such as weather conditions, cattle diseases etc.

The ratings however derive comfort from the established procurement base of IDMP among dairy farmers supplemented by wide network of bulk coolers and chilling centers which ensure a regular supply of raw milk, recognised regional brand of 'Sonai' in pouched milk, ghee etc and diversified product portfolio. The ratings also take comfort from long standing track record of promoters in dairy industry and established relationship of the company with key institutional clients leading to assured revenues from supply contracts.

Going forwards, accruals from debt funded capacity expansion for cheese manufacturing, timely recovery of government subsidiaries and maintaining profitability at current levels remains key sensitivities.

Outlook: Stable

ICRA believes that IDMP to witness moderate revenue growth aided by improvement in realisation. The company is also expected to reduce its inventory holdings to take advantage of positive price movement coupled with timely receipt of subsidies which should improve the working capital intensity. The margins are expected to remain moderate, contingent upon government subsidies. The outlook may be revised to 'Positive' if IDMP's profitability as well as capital structure and coverage indicators improves considerably through judicious product mix and efficient working capital management respectively. The outlook may be revised to 'Negative' if any unanticipated debt funded capex deteriorates the credit matrix of the company. Underutilisation of the capacity and resultant pressure on profitability and return indicators will also put downward pressure on the rating.

Key rating drivers

Credit strengths

Established procurement base ensuring regular supply of liquid milk at competitive prices from farmers, supplemented by network of bulk coolers and chilling centers

IDMP has been in dairy business for more than a decade and has established relationship with milk farmers in its area of operation ensuring consistent supplies of good quality raw milk. It pays its suppliers on time as against delayed payments from co-operatives and also provides advisory services to the milk farmers. These measures ensure loyalty and assured milk supply from dairy farmers and center chaalaks. As on date, the company has 110 bulk cooling centres and 40 chilling centres spread majorly in Pune district and other districts of Maharashtra.

Backward integration in cattle feed business coupled with established customer base may provide stable revenue support

In FY2018, IDMP acquired 100% equity stake of its promoter group company – Sonai Cattle Feeds Private Limited (SCFPL) as a part of backward integration, at a consideration of Rs. 3.15 crore. SCFPL retails about 1500 tons of grain-based cattle feeds. It has also set up its own 300 TPD cattle feed manufacturing plant in Indapur, Pune. IDMP intends to leverage its existing supplier base of over four Lacs dairy farmers to sell the cattle feed which will ensure a healthy revenue stream for SCFPL going forward.

Diversified product profile with major presence in value added products segment (VADP); increasing retail presence through sale of pouch milk and VADPs under the brand name 'Sonai'

The company has a wide portfolio of customers. However top ten customers contribute around 60% of total revenue as witnessed in the past. Some of the top key customers include Mother Dairy, Patanjali Ayurved Limited, Britannia etc. The company is also focusing on increasing sale of pouched milk sale as the same provides brand visibility and stable revenue stream. Currently, the company is manufacturing ~1.25 lac litres per daily of pouched milk supplying majorly in the state of Maharashtra under the brand name 'Sonai'.

Credit challenges

Low profitability impacted by low dairy product realisations and weak bargaining power with the institutional clients

In FY2018, low dairy products realisations coupled, stagnant average raw milk procurement cost and inability of the company to pass on the impact to its institutional clients due to low bargaining power has impacted the profitability of IDMP to a large extent. The company operating margin reduced from 3.4% in FY2017 to ~3.0% in FY2018. Going forward, the government subsidies coupled with low procurement cost may support the operating profitability to an extent. However, the net accruals are expected to remain minimal owing to expected high interest cost for the company during the year.

Moderately leveraged capital structure and coverage indicators owing to subsidiary debt addition

The capital structure of the company was impacted in FY2018 due to increased short-term debt levels in the form of pledge loans. Addition of SCFPL debt further impacted the capital structure. The gearing remained at 1.7x as on March 2018 as against 0.5x in FY2017. ICRA expects the capital structure to remain leveraged and coverage indicators to remain stretched in FY2019 as well due to proposed debt addition pertaining to new cheese manufacturing plant.

Plans to venture into cheese manufacturing segment likely to impact the ROCE in the near term

Given the higher gross margin offered by cheese segment as compared to the other dairy products, the company intends to foray into the cheese manufacturing business by commissioning a new cheese manufacturing facility in its existing plant with a production capacity of 40 MT/Day. Though the segment is likely to drive the revenue growth of the company over the medium to long term, under utilisation of the installed capacity till the operation stabilise is likely to impact the return of capital employed (ROCE) in the near term.

High competitive intensity from organised co-operatives, private players and unorganised players

Though the share of the organised industry is approximately 30 per cent and is growing at a robust rate of 15 per cent per annum, the dairy cooperatives have a strong presence and hold over the Indian dairy market with over 41% market share and poses a challenge for the growing corporate dairies when it comes to milk procurement.

Milk production is vulnerable to external factors such as weather conditions, cattle diseases etc

Like all other agriculture-based products, production and pricing of milk products is also sensitive to environmental conditions. The industry is vulnerable to risks associated with failure in milk production due to external factors like cattle diseases though no such outbreak has ever affected IDMP in its operations in the past.

Liquidity Position:

The liquidity profile of the company remains adequate considering the undrawn line of credit in cash credit facilities where it has ~40% unutilised limits with respect to drawing power (DP). However, the liquidity profile of the company will also remain contingent upon the timely receipt of the subsidies which remains to the tune of Rs. 80.0 crore in FY2019 as it has impacted the working capital profile of the company in the interim.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	NA
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Indapur Dairy and Milk Products Ltd. As on March 31, 2018, the Company had one subsidiary, that is enlisted in Annexure-2.

About the company:

Incorporated in 2001, Indapur Dairy and Milk Products Limited (IDMP) is a closely held company promoted by Mr. Dashrath Mane with his family members. IDMP is present across the supply chain of milk procurement, processing and marketing of liquid milk and milk products under the brand name of 'Sonai'. The dairy products manufactured and marketed by the company include cow milk, ghee, butter, skimmed milk powder (SMP), whole milk powder (WMP), flavoured milk, shrikhand, aamrakhand etc. The manufacturing plant of the company is situated in Indapur (Pune, Maharashtra) with a milk processing capacity of ~25 lacs liters per day (LPD). It has a milk powder manufacturing capacity of 1.3 Lakhs tonnes per day, butter making capacity of one Lakh tons per day and pouch milk capacity of 4.0 lacs litres per day. In FY2018, the company acquired 100% equity stake of its promoter group company – Sonai Cattle Feeds Private Limited (SCFPL) as a part of backward integration. The company is into the trading and manufacturing of grain-based cattle feeds.

In FY2018, on a standalone basis, IDMP reported a net profit of Rs. 5.7 crore on an operating income of Rs. 1062.7 crore, as compared to a net profit of Rs. 12.0 crore on an operating income of Rs. 1078.9 crore in the previous year. On a consolidated basis, the company reported a net profit of Rs. 7.0 crore on an operating income of Rs. 1158.3 crore in FY2018.

Key financial indicators (audited)

	FY2017 (Standalone)	FY2018 (Consolidated)
Operating Income (Rs. crore)	1078.9	1158.3
PAT (Rs. crore)	12.0	7.0
OPBDIT/OI (%)	3.4%	3.3%
RoCE (%)	17.2%	12.2%
Total Debt/TNW (times)	0.5	1.7
Total Debt/OPBDIT (times)	1.1	4.3
Interest coverage (times)	4.4	2.6

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating January 2019	Date & Rating in FY2018 August 2017	Date & Rating in FY2017 July 2016	Date & Rating in FY2016 June 2015	
1 Term Loan 1	Long Term	10.0	10.0	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	
2 Term Loan 2	Long Term	14.0	14.0	[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	
3 Proposed TL	Long Term	32.0	-	[ICRA]BBB+ (Stable)	-	-	-	
4 Cash Credit 1	Long Term	39.0		[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	
5 Cash Credit 2	Long Term	20.0		[ICRA]BBB+ (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	
6 Bank Guarantee	Short Term	5.0		[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	
7 Unallocated	Long Term / Short Term	-		-	[ICRA]A- (Stable) / A2+	[ICRA]A- (Stable) / A2+	[ICRA]BBB+ (Stable) / A2	
Total		120.0						

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 (Rs. crore)	Current Rating and Outlook
NA	Cash Credit 1	-	11.50%	-	39.0	[ICRA]BBB+ (Stable)
NA	Cash Credit 2	-	10.50%	-	20.0	[ICRA]BBB+ (Stable)
NA	Term Loan 1	Sept-2017	11.50%	Sept-2022	10.0	[ICRA]BBB+ (Stable)
NA	Term Loan 2	Aug-2015	9.75%	Aug-2022	14.0	[ICRA]BBB+ (Stable)
NA	Term Loan 3 (Proposed)	-	-	-	32.0	[ICRA]BBB+ (Stable)
NA	Non fund based limits – LC/BG	-	-	-	5.0	[ICRA]A2

Source: Indapur Dairy and Milks Products Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sonai Cattle Feed Pvt. Ltd	100.00%	Full Consolidation

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