

July 30, 2020

Shree Chhatrapati Shahu Milk and Agro Producer Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Working Capital Loans	3.00	3.00	[ICRA]B (Stable); reaffirmed
Term loans	2.12	2.12	[ICRA]B (Stable); reaffirmed
Unallocated	4.72	4.72	[ICRA]B (Stable); reaffirmed
Total	9.84	9.84	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to remain constrained by the weak financial profile of Shree Chhatrapati Shahu Milk and Agro Producer Company Limited ('Shahu Milk' or the company) as reflected by its continued cash losses in the business, eroded net worth and the consequent adverse credit metrics. Further, the company's scale has remained modest over the years, mainly due to intense competition among several dairies in the Kolhapur region of Maharashtra for milk procurement, which has restricted its scale expansion. The rating also remains constrained by the vulnerability of milk production to external factors, such as climatic conditions and cattle diseases, and exposure to any unfavourable regulations by the Government on the pricing of milk and milk products. Given the unfavorable impact of Covid-19 across various industries, ICRA will continue to monitor the developments in the dairy industry closely.

The rating, however, takes into account the location-specific benefit derived by the company from its presence in the predominantly sugarcane and dairy-rich Kolhapur district of Maharashtra. The company also continues to leverage its benefit as part of the Shahu Group, which has mainly operated among farmers in the region for over four decades through its co-operative sugar company, Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited.

The Stable outlook on the long-term rating reflects ICRA's opinion that Shahu Milk will continue to benefit from the extensive experience of the promoter group and its established relationship with farmers.

Key rating drivers and their description

Credit strengths

Location specific advantage from presence in dairy intensive Kolhapur region, as well as benefits as part of Shahu Group - Shahu Milk operates from the Kolhapur district of Maharashtra, which has emerged as one of the key milk production centres of the country given its conducive agro-climatic conditions necessary to sustain dairy animal productivity. It markets various products under the 'Shahu' brand in and around Kolhapur. The company is a part of the Shahu Group, which has an established presence in Kolhapur, spanning over four decades, mainly in the sugar business through the co-operative sugar company, Shree Chhatrapati Shahu Sahakari Sakhar Karkhana Limited. Over the years, the Group has developed established relationships with local farmers, which benefits the company in milk procurement.

Credit challenges

Weak financial profile marked by continued cash losses, eroded net worth and consequent adverse credit metrics – In FY2019, the company reported operating losses mainly because of sharp contraction in milk contribution margins compared to the previous fiscal. Given the persistent high interest and depreciation charges year-on-year, it continued to report net losses in FY2019, as in the past. The company also reported cash losses in FY2018 and FY2019. Accumulated losses has eroded the net worth resulting in adverse credit metrics in FY2019. The debt profile in FY2019 was dominated by interest bearing unsecured loans from promoters, followed by working capital and term loans. The debt profile as on March 31, 2020, continued to be dominated by unsecured loans, which largely supports the company's liquidity position followed by working capital and term loans.

Small scale of operations - Shahu Milk is a small-sized player in the competitive milk and milk products industry. Its OI has remained stagnated in the past few fiscals with the company reporting Rs. 30.02 crore revenues in FY2019 over Rs. 29.14 crore in FY2018. The company reported revenues close to Rs. 30.00 crore (provisional) for FY2020. Shahu Milk has recorded gross sales of close to Rs. 7.00 crore in Q1 FY2021.

Exposure of milk production to external factors such as climatic conditions and cattle diseases - Milk availability is influenced to a great extent by agro-climatic conditions, which plays a major influence in the tropics. The industry is vulnerable to risks associated with the failure of milk production due to external factors like cattle diseases and extension of the lean season due to drought-like conditions, which ultimately affect milk availability and hence prices.

Exposure to Government regulations on pricing of milk and milk products - The price of the dairy industry's raw material, milk, is sensitive to Government policies, environmental conditions and epidemic-related factors. The Milk and Milk Products Order (MMPO) regulates milk and milk products production in the country. The milk purchase price in Maharashtra is controlled by the state government, which issues a minimum rate for milk procurement (GR) at the inception of each lean and flush season.

Stiff competition from organised co-operatives, private players and unorganised sector - The milk and milk products industry is characterised by intense competition from the organised co-operatives, large private players and unorganised players. Shahu Milk is present in the fiercely competitive Kolhapur district of Maharashtra, which is a high milk-producing zone due to its conducive agro-climatic conditions. Consequently, it has a large number of co-operative dairies and small private players who pose stiff competition to Shahu Milk.

Liquidity position: Poor

Shahu Milk had external terms loans of Rs. 2.47 crore on its books as on March 31, 2019, which are to be repaid by FY2022. It had unsecured loan of Rs. 4.97 crore as on March 31, 2019 with no fixed repayment schedule. The debt profile as on March 31, 2020 also remained dominated by unsecured loans, followed by working capital loans and term loans. With operating and cash losses in FY2019, the company's liquidity position remained poor, resulting in complete reliance on unsecured loans from promoters and bank borrowings. The average working capital utilisation in FY2020 has remained at 93% rendering limited buffer in the same.

Rating sensitivities

Positive triggers - ICRA could upgrade Shahu Milk's rating if the company demonstrates a healthy and sustained growth in its overall scale of operations and profitability, leading to a strengthened net worth position.

Negative triggers - Negative pressure on Shahu Milk's rating could arise if there is notable decline in sales and expansion of losses in the business, further weakening the credit profile of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in September 2009, Shahu Milk is a co-operative unit involved in milk procurement, milk processing and sales of milk and milk products. The installed milk processing capacity of the plant is 1,00,000 litres per day. The company procures milk from co-operative societies primarily in the Kagal and Karveer talukas of Kolhapur district. It has also set up two chilling centres in Kolhapur, which helps to improve the shelf life of the collected milk.

In FY2019, the company reported a net loss of Rs. 2.32 crore on an OI of Rs. 30.02 crore against a net loss of Rs. 1.22 crore on an OI of Rs. 29.14 crore in the previous year. In FY2020, the company has reported revenues of Rs. 29.72 crore on a provisional basis.

Key financial indicators

Rs. crore	FY2017 (Audited)	FY2018 (Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	32.87	29.14	30.02
PAT (Rs. crore)	-0.66	-1.22	-2.32
OPBDIT/OI (%)	2.04%	0.36%	-2.50%
RoCE (%)	1.10%	-7.03%	-17.39%
Total Outside Liabilities/Tangible Net Worth (times)	4.72	12.59	-10.21
Total Debt/OPBDIT (times)	9.43	64.39	-13.54
Interest Coverage (times)	0.89	0.16	-0.82
DSCR	0.35	0.11	-0.82

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2021)		Rating 30-July-2020	Rating History for the Past 3 Years			
		Amount Rated	Amount Outstanding		FY2020 03-Apr-2019	FY2019 -	FY2018 28-Mar-2018	
1	Cash Credit	Long Term	3.00	-	[ICRA]B (Stable)	[ICRA]B (Stable)	-	[ICRA]B (Stable)
2	Term Loan	Long Term	2.12	2.47 [^]	[ICRA]B (Stable)	[ICRA]B (Stable)	-	[ICRA]B (Stable)
3	Unallocated	Long Term	4.72	-	[ICRA]B (Stable)	[ICRA]B (Stable)	-	[ICRA]B (Stable)
Total			9.84					

Amount in Rs. crore, [^] As on March 31, 2019

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	-	-	3.00	[ICRA]B (Stable)
NA	Term Loan	25-Oct -2014	11%	25-Oct -2021	2.12	[ICRA]B (Stable)
NA	Unallocated	NA	-	-	4.72	[ICRA]B (Stable)

Source: Shree Chhatrapati Shahu Milk and Agro Producer Company Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Analyst Contacts

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Srinivas Menon

+91 22 6169 3354

srinivas.menon@icraindia.com

Shashikant Raut

+91 20 66969915

shashikant.raut@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:

+91-9354738909 (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) 2556 0194/ 6606 9999

© Copyright, 2020 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