

December 02, 2019

## S.P.Mani And Mohan Dairy (India) Private Limited: Rating assigned for enhanced amount

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ CC	10.00	13.50	[ICRA]BBB- (Stable); Assigned/Outstanding
Long term fund based – Unallocated	0.00	18.40	[ICRA]BBB- (Stable); Assigned
Long term fund based – Term loan	0.00	13.10	[ICRA]BBB- (Stable); Assigned
<b>Total</b>	<b>10.00</b>	<b>45.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The assigned rating of S.P. Mani And Mohan Dairy (India) Private Limited (SPMMDPL) considers the promoters' experience of more than 35 years in the milk industry and the established presence of its brand, Amirthaa, in Tamil Nadu. The rating also factors in the established procurement base of dairy farmers, supported by a network of bulk coolers and chilling centres, ensuring stable supply of raw milk. Further, the rating takes comfort from the company's healthy profitability in FY2019, and comfortable capital structure, as indicated by gearing and total debt/OPDITA of 1.0 times and 1.7 times, respectively in FY2019.

The rating, however, remains constrained by the company's 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. Further, the company's revenue till FY2019 was concentrated towards milk sales, with moderate contribution from value-added products. Nonetheless, the company is likely to focus on improving revenue share from the value-added segment, going forward. However, any improvement in the operating margin on account of the same remains to be seen. The rating factors in the risks arising from vulnerability of milk production to agro-climatic and environmental factors. Further, the rating is also constrained by the company's working capital metrics, reflected by its low current ratio as on March 31, 2019 because of capex and investments done in the recent past.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's opinion that SPMMDPL will continue to benefit from its promoter's experience in the dairy industry with established procurement base, and an established network dealers and distributors.

### Key rating drivers and their description

#### Credit strengths

**Experience of more than 35 years in the milk industry with established raw milk procurement base** – SPMMDPL's promoters have experience in the milk industry since 1984 and they have been selling milk and milk products under the brand, Amirthaa. Over the years, their business developed a direct farmer procurement model with strong association

with farmers on a continuous basis, by providing subsidised cattle feed, free doctors' assistance, on-time payments etc, supporting adequate supply of raw milk at competitive prices from farmers. The company has five owned chilling centres (at Erode, Namakkal, Karur, Palani and Mangalapuram), having a total chilling capacity of 3.35 lakh litres per day for procurement of raw milk.

**Established dealer and distribution network** – The company markets its products through a well laid distribution network comprising a dedicated network of around 350+ distributors and company-appointed sales personnel across all districts in Tamil Nadu. The company's revenue is primarily derived from the B2C segment, especially from western/central Tamil Nadu market.

**Healthy capitalisation and coverage indicators owing to healthy accruals** – SPMDPL maintained a healthy capital structure, as indicated by gearing and total debt/OPDITA of 1.0 times and 1.7 times, respectively in FY2019. The interest coverage and debt coverage indicators were comfortable at 6.8 times and 2.7 times, respectively in FY2019. Going forward, capitalisation and coverage indicators are expected to remain comfortable on account of likely sustenance of profitability and moderate borrowing plans.

### Credit challenges

**Moderate scale of operations** – Operating out of single dairy unit based out of Erode, SPMDPL's revenue was moderate at Rs. 263-crore in FY2019 with market presence primarily restricted to Tamil Nadu. With a relatively modest geographical presence, the company's operations and profitability are vulnerable to changes in external factors such as competition, agro-climatic, regulatory and environmental conditions/factors specific to region of its operations.

**Low contribution from VADP; intense competition in the organised dairy industry** – In FY2019, VADP's contribution to total revenue was only 4% (excluding milk/curd/B2B charges), indicating limited presence of the company in this segment. Going forward, the ability of SPMDPL to increase VADP's share in the revenue mix remains critical for sustaining/improving its profitability.

Further, SPMDPL operates in an intensive competitive environment, which has other established brands such as Aavin, Hatsun, Heritage, Milky Mist etc. which have strong presence in Tamil Nadu. This resulted in a moderate growth in the business in the recent past and going forward, increasing revenue will be dependent on higher revenue contribution from the VADP segment and improved geographical presence.

**Financial profile marked by low current ratio** – SPMDPL's working capital metrics is constrained, as reflected by its low current ratio at 0.6 times as on March 31, 2019. The company, in the past three years, financed its capex primarily through internal accruals, and made long-term investment/advances of Rs. 12-crore made to its Group firm, resulting in elevated level of current liabilities vis-à-vis its current assets position. Going forward, the company's ability to demonstrate better management of its working capital (by increasing long-term funds etc) will be a key rating sensitivity.

## Liquidity position: Stretched

The liquidity profile of SPMMDPL is stretched considering current ratio at 0.6 times in FY2019 due to capital expenditure incurred in past by deployment of short term funds. Also, the company's average utilisation of working capital limits (as a percentage of its borrowing limits) in the last 12 months ended September 2019 stood at 87%. Going forward, infusion of long-term funds in the form of long-term loans/equity will be imperative to improve the company's current ratio.

## Rating sensitivities

**Positive triggers** – ICRA could upgrade SPMMDPL's rating if the company demonstrates improvement in its working capital metrics, profitability and scale. The specific credit metrics that could lead to an upgrade mainly include, but do not necessarily limited to, current ratio above 1.3 times and expected enhancement of working capital limits / sanctioning of term loans for capex incurred in the past.

**Negative triggers** – Negative pressure on SPMMDPL's rating could arise if the company's liquidity profile weakens on account of the stretched working capital cycle or withdrawal of promoter unsecured loan, or if its profitability deteriorates significantly.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	NA
Consolidation / Standalone	The ratings are based on the standalone financial profile of the entity

## About the company

S.P. Mani & Mohan Dairy India Private Limited has an ISO 22000 certified dairy at Erode and is into manufacturing and supplying of milk and milk products in southern India spanning across Tamil Nadu, Kerala and part of Andhra Pradesh. SPMMDPL was incorporated in 2011, however, the promoters have vintage of 35 years in the milk industry. Prior to incorporation of this company, the promoters were operating the same line of business in the name of S.P. Mani and Mohan Dairy, a firm registered under the Partnership Act. The firm had a capacity of 75,000 litres per day and was only dealing in milk conversion and selling.

The company has five owned chilling centres each at Erode, Namakkal, Karur, Palani and Mangalapuram, having a total chilling capacity of 3,35,000 litre per day, 850 village level milk collection centres, 28,000 farmers' association and has a milk processing capacity of 3 lakh litre per day. The company has branch offices in Madurai and Tirunelveli and employs around 720 people (including 335 casual employees). SPMMDPL manufactures and sells its products under the brand, Amirthaa, that include milk, curd, butter, ghee, SMP and flavoured milk (in seven flavours).

## Key financial indicators (audited)

	FY2017	FY2018	FY2019
Operating Income (Rs. crore)	56.1	258.5	263.8
PAT (Rs. crore)	0.1	-4.1	7.1
OPBDIT/OI (%)	12.1%	4.4%	7.4%
RoCE (%)	3.5%	-1.9%	17.2%
Total Debt/TNW (times)	1.3	1.3	1.0
Total Debt/OPBDIT (times)	5.6	3.1	1.7
Interest Coverage (times)	7.3	3.5	6.8

## Status of non-cooperation with previous CRA

India Ratings and Research (Ind-Ra) has migrated SPMMMDPL's rating to IND BBB- (Stable) (ISSUER NOT COOPERATING)/IND A3(ISSUER NOT COOPERATING) in May 2019 as the issuer did not participate in the rating exercise despite continuous requests and follow-ups by the agency. CRISIL has reaffirmed and withdrawn SPMMMDPL's rating to BB+ (Stable) in July 2019 on receipt of NOC from the bankers and upon request by SPMMMDPL.

**Any other information:None**

## Rating history for last three years

	Instrument	Rating (FY2020)					Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	FY2019	FY2018	FY2017	
					2-Dec-19	29-Aug-19				
1	Cash Credit	Long Term	.5	113	9.5	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-	-
2	Unallocated Limits	Long Term	.4	118	-	[ICRA]BBB-(Stable)	-	-	-	-
3	Term Loan	Long Term	.1	113	13.1	[ICRA]BBB-(Stable)	-	-	-	-

*Amount in Rs. Crore*

## 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](http://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	-	-	-	13.50	[ICRA]BBB- (Stable)
NA	Unallocated limits	-	-	-	18.40	[ICRA]BBB- (Stable)
NA	Term loan	Feb 2015	-	Jan 2022	13.10	[ICRA]BBB- (Stable)

Source: SPMMMDPL

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