Shivamrut Dudh Utpadak Sahakari Sangh Limited
March 12, 2018

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facilities</td>
<td>21.50</td>
<td>CARE B; Stable (Single B; Outlook: Stable)</td>
<td>Assigned</td>
</tr>
<tr>
<td>Total Facilities</td>
<td>21.50</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(Rupees Twenty One crore Fifty lakh only)

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers
The ratings assigned to the bank facilities of Shivamrut Doodh Utpadak Sahakari Sangh Limited (SDS) are moderated by low profitability, moderate capital structure, working capital intensive nature of operations, geographical concentration and intense competition from organized as well as unorganized players in the dairy industry.

The rating derives strength from long standing experience of directors in the milk processing industry, long track record of operations of over four decades along with well-established procurement network and brand image for the milk packets.

The ability of the society to further improve its scale of operations, profitability margins and capital structure, while managing the working capital effectively are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

*Competition from the private dairies and co-operative societies*
SDS faces competition from the large sized private players, co-operative dairy societies with well established brands as well as from the un-organized sector comprising of milk vendors.

*Working capital intensive nature of operations*
Operations of SDS are working capital intensive in nature. During FY17 (refers to the period April 01 to March 31) operating cycle remain comfortable at 17 days (P.Y.: 18 days). Also the inventory period reduced to 8 days in FY17 from 9 days FY16. Due to high working capital requirements owing to the nature of the business for procurement of milk from the rural areas, the working capital utilization has been on the higher side at 97% over past 12 months ended December 31, 2018.

Key Rating strengths

*Experienced promoters and established brand name*
The SDS has been engaged in the dairy business for over 40 years and has built up a strong brand name ‘Shivamrut’ within the Maharashtra region. Mr Ranjitsingh MohitePatil, current Chairman of the society, has been associated with the society since past 13 years and has vast experience of the dairy industry.

*Strong milk procurement network backed by established relations with suppliers*
The milk processing and manufacturing plant is located at Malshiras, Maharashtra which is one of the major milk generating state. SDS has a diversified supplier base consisting of various small co-operative societies. It is associated with

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
around 350 regional milk union societies covering about 110 villages. It has own 100 collection centers spread within an area of 40 kms from its plant.

**Diversified product portfolio**
The society has a diversified product portfolio consisting of pasteurized milk, ghee, butter, other milk products and cattle feed, etc. During FY17 loose milk constituted 62.48% of total sales (P.Y.: 62.64%) and remaining contributed by cattle feed and other milk products.

**Financial risk profile marked by growth in sales, thin profit margins, moderate capital structure and solvency position**
The Total Operating Income (TOI) of SDS was increased by 15.51% during FY17 (P.Y.: decline of 16.14%) due to high volume of sales of processed milk, milk products and cattle feed. The TOI stood at Rs.317.37 crore in FY17 (P.Y.: Rs.274.76 crore). The PBILDT margins were in the range of 0.89% to 1.28% over FY15-FY17 and stood at 0.89% during FY17. The margins remain thin being the co-operative and non-profit making nature of the entity.
The capital structure remained moderate with overall gearing stood at 1.15x as on March 31, 2017 (P.Y.: 1.22x). Further the total debt to GCA ratio remained weak at 14.41x during FY17 (P.Y.: 13.31x).

**Industry Outlook**
The long-term outlook of Indian dairy sector is favorable on account of increasing population, increase in per capita consumption, increase in expenditure on package food, brand awareness, urbanization & increase in nuclear families and government support. India’s dairy industry is expected to maintain growth at a CAGR of 14% to 15% over 2016 to 2021. Value-added products are expected to grow at 19%-20% and liquid milk is expected to maintain growth rate of 3%-5%.

**Analytical approach:** Standalone

**Applicable Criteria:**
- Criteria on assigning Outlook to Credit Ratings
- CARE’s Policy on Default Recognition
- Rating Methodology-Manufacturing Companies
- Financial ratios – Non-Financial Sector

**About the Company**
SDS is a co-operative society formed in 1976 for processing of milk and manufacturing of milk products. The plant is set up at Malshiras, Solapur district in the state of Maharashtra. SDS is engaged in processing of milk into homogenized & pasteurized milk and manufacturing of dairy products including butter, ghee, shrikhand, sterilized flavored milk, etc. SDS is also engaged in the manufacturing of cattle feed in order to provide quality fodder to its milk suppliers.
The society has a milk processing capacity of around 2 lakh liters per day (llpd) alongwith cattle feed manufacturing capacity of 80 ton per day and milk product manufacturing capacity of 3 ton per day.

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY16 (A)</th>
<th>FY17 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>274.76</td>
<td>317.37</td>
</tr>
<tr>
<td>PBILDT</td>
<td>3.52</td>
<td>2.83</td>
</tr>
<tr>
<td>PAT</td>
<td>0.68</td>
<td>0.55</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>1.22</td>
<td>1.15</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>1.22</td>
<td>1.69</td>
</tr>
</tbody>
</table>

*A: Audited*
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Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issue</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-based - LT-Working Capital Limits</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>21.50</td>
<td>CARE B; Stable</td>
</tr>
</tbody>
</table>

Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Current Ratings</th>
<th>Date(s) &amp; Rating(s) assigned in 2017-2018</th>
<th>Date(s) &amp; Rating(s) assigned in 2016-2017</th>
<th>Date(s) &amp; Rating(s) assigned in 2015-2016</th>
<th>Date(s) &amp; Rating(s) assigned in 2014-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fund-based - LT-Working Capital Limits</td>
<td>LT, 21.50</td>
<td>CARE B; Stable</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Press Release

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