

Modi Dairy (Revised)

April 04, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	60.00 (Enhanced from 25.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	60.00 (Rs. Sixty Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating to the bank facilities of Modi Dairy (MDY) continues to derive strength from strong parentage and long track record of operations of the H.P. Modi group in Dairy Industry, locational advantage of manufacturing units along with strong milk procurement network, well recognised brand and established marketing arrangements with supplies going to reputed customers albeit presence of customer concentration risk. The rating also factors in H.P. Modi group's moderate profitability, capital structure and debt coverage indicators on combined basis.

The rating, however, remained constrained due to seasonal nature of the milk processing industry, geographical concentration of sales of Modi group in the state of Rajasthan, Environmental risk and intense competition from the organised and un-organised players. The rating also remains constrained due to partnership nature of constitution of MDY.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- ✓ Sustained improvement in scale of operations with PBILDT margin (on combined basis) of more than 10.00% on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- * Undertaking any debt funded capex resulting in the deterioration of overall gearing ratio beyond 1.50 times (on combined basis) in projected period
- * Decline in operating margin below 5.00% (on combined basis) on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Comfortable capital structure and debt coverage indicators

At combined level, capital structure has improved with an overall gearing of 0.40 times as on March 31, 2021 (vis-à-vis 0.73 times as on March 31, 2020) on account of accretion of profits to reserve along with decrease in overall debt by Rs.10.64 crore (from Rs.39.38 crore in FY20 to Rs.50.02 crore in FY21) due to decrease in working capital borrowings as well as scheduled repayment of term loans in FY21. Furthermore, total debt to GCA of the group improved from 2.58 times as on March 31, 2020 to 1.21 times as on March 31, 2021 on account of higher GCA and decrease in total debt upon scheduled repayment of term loans. PBILDT interest coverage of group improved from 5.36 times in FY20 to 9.06 times in FY21 due to lower interest expense and increase in operating profitability in absolute terms. Further, PBILDT interest coverage improved to 11.40 times in 9MFY22 due to improvement in operating profitability.

Further, capital Structure of MDY remained comfortable with overall gearing of 0.76 times as on March 31, 2021 (vis-à-vis 0.99 times as on March 31, 2020) on account of accretion of profits to reserve and decrease in overall debt by Rs.14.68 crore (from Rs.58.68 crore in FY20 to Rs.43.95 crore in FY21) primarily on account of lower working capital utilisation in FY21 as well as scheduled repayment of term loans. Also, during FY21, the partners had withdrawn around Rs.27.94 crore to fund the purchase of land for expansion purpose

Furthermore, total debt to GCA of MDY improved from 1.94 times as on March 31, 2020 to 1.45 times as on March 31, 2021 on account of higher GCA and scheduled repayment of term loans. PBILDT interest coverage of MDY improved from 7.82 times in FY20 to 8.60 times in FY21 due to interest expense decreased from Rs.4.80 crore in FY20 to Rs.3.99 crore in FY21 and increase in operating profitability. Further, PBILDT interest coverage stood at 9.30 times during 9MFY22.

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Well recognized brand and established marketing arrangements with supplies going to reputed customers albeit presence of customer concentration risk

MDY is directly supplying chilled (processed) milk to Bikanerwala Food Products, Mother Dairy Fruit and Vegetables Pvt. Ltd., along with group company MFA. MDY is also supplying Condensed Skimmed Milk to Nestle India Ltd. since commencement of operations of plant.

Lotus Dairy Products Pvt. Ltd. (LDPL)'s products (Ghee, Chach, flavored milk, milk) are marketed under the brand name 'Lotus' and 'Shreeji' which are well known and well-accepted brands in Rajasthan. The company's products carry standardized marks (Agmark for Desi Ghee & Cow Ghee). Modi group has large and reputed clientele for bulk chilled milk, SMC and Skimmed Milk Powder (SMP) which includes Nestle India Ltd., Mother Dairy Fruits & Vegetable Pvt. Ltd., Haldiram Snacks Pvt. Ltd., Jaipur Gosamvardhan Samiti (Goras) etc. apart from sales to retail segment under the brand name. LDPL has a strong network of consignment (CNF) agents in the state having depots for storage of goods which are then forwarded down the sales chain to distributors, sub-distributors, wholesalers.

The group is supplying products in 11 districts of Rajasthan. Sales to top 3 customers accounted for 39.05% of group's TOI during FY21 (vis-à-vis 28.27% in FY20) reflecting moderate customer concentration risk. Similarly, top 3 customers accounted for 32.33% of group's ToI for the 9MFY22. Furthermore, top 2 suppliers accounted for 47.95% of group's Total purchases during FY21 reflecting moderate supplier concentration risk.

Locational advantage of the plants situated in milk producing belts along with strong procurement network:

All the manufacturing units of the group entities are located closer to the milk producing belt of Rajasthan i.e. Sri Ganganagar, Hanumangarh, Churu etc., assuring ample supply of good quality milk to the group entities at lower logistics cost. The strength of the group emanates primarily from its supplier base. The group has procurement base of nearly 60,000 milk producers located around the manufacturing locations. Further, the company has equipped the farmers with containers allowing easy collection of the milk from the rural areas. The group procures milk directly from Milk producers at its Village Level Milk Collection Centre and milk from these centers is brought to Milk Chilling Centers for chilling. The group has established milk testing facilities at these centres to check the quality of raw milk. Further, the milk is transported from these collection centres to the group's manufacturing facilities through owned fleet of insulated tankers.

The group also extends incentives to the farmers for milk production by means of educational camps, cattle sponsoring, cattle feed funding, veterinary services, installation of Bulk Milk Coolers etc. Thus, the group has gained the faith and support of the farmers and the same continues to spread via word of mouth.

Key Rating Weaknesses**Decline in scale in FY21; Albeit improvement witnessed in 9MFY22**

The TOI of the group declined by 28.45% to Rs.596.07 in FY21 (vis-à-vis Rs.833.04 crore in FY21) on account of decline sales of skimmed milk powder, ghee, chilled milk in Modi Dairy (MDY) and processed milk in Milk Food Aids Pvt. Ltd (MFA) since the operations of the plant was shut-down during April to May 2020 due to imposition of lock-down to prevent COVID-19 pandemic. During 9MFY22, group reported TOI of Rs.725.58 crore as against Rs.396.06 Crore in 9MFY21 owing to relaxation given by the government authorities.

PBILDT margin of the group improved by 422 bps to 10.09% in FY21 (vis-à-vis 6.62% in FY20) mainly due to decrease in cost of raw material consumed by 39.21% to Rs.258.58 crore in FY21 (from Rs.659.39 crore in FY20 to Rs.400.81 crore in FY21) along with power & fuel and employee cost. Furthermore, PAT margin has improved by 256 bps to 5.40% in FY21 (vis-à-vis 2.84% in FY20) due to lower interest cost and lower deferred tax of Rs.0.94 crore in FY21. During 9MFY22, PBILDT margin and PAT Margin of the group stood at 6.52% and 2.92% respectively. The lower margin compared to FY21 was on account of increase in feedstock prices. Furthermore, GCA at group level increased by 21.28% to Rs.50.02 crore in FY21 due to increase in PAT in absolute terms.

At Standalone level, TOI of the MDY increased by 55.86% to Rs.486.55 crore on account of higher sales of skimmed milk powder, ghee, chilled milk. On Standalone level, during 9MFY22, MDY reported TOI of Rs.318.53 crore (as against Rs.231.10 Crore in 9MFY21).

Environmental risk and Geographical concentration of sales in the state of Rajasthan

Modi group is exposed to environmental risk related to epidemic, since its entire milk collection is from the milk producers in Rajasthan. However, group has 17 Milk collections and chilling centers across 5 districts which partly mitigate this risk though the same are concentrated in Rajasthan region. The average milk procurement of MDY has increased over the past 2 years, along-with an increasing milk supply base. Modi group is procuring milk from more than 60,000 milk producers and has more than 300 Village level collection centers. Apart from that group also have around 160 insulated milk tankers which make it easy to transport the milk from chilling/collection centers to the manufacturing plant.

Competition from the organized and un-organized sector

Modi group faces competition in the dairy segment from other established brands in the organized market. The competition gets fiercer with presence of unorganized players leading to pricing pressures. Other major dairy companies are also entering into the manufacturing of value-added milk products on account of increasing demand in the domestic market.

Seasonal nature of the milk processing industry

The dairy industry is characterized by the short supply of milk during peak of summers. The company procures the milk during the winter season when the milk is available in abundance and at low price which leads to build up of inventory/finished goods mostly ghee and SMP. Correspondingly, there is high requirement of funds during the peak season i.e. winter months from November- May.

Constitution as a partnership concern

MDY's constitution as a partnership firm with low capital base restricts its overall financial flexibility in terms of limited access to external funding for any future expansion plans. There is also the inherent risk of withdrawal of the capital and dissolution of the firm in case of death/ insolvency of the partners. Any significant withdrawals from the capital account will affect its capital structure. During FY21, the partners had withdrawn around Rs.27.94 crore to fund the purchase of land for expansion purpose.

Liquidity: Adequate

The Modi Dairy's liquidity remained adequate marked by sufficient cushion in cash accruals vis-à-vis debt repayment obligation. MDY had unencumbered cash and cash equivalent of Rs.2.49 crore as on March 31, 2021. Furthermore, cash flow from operating activities increased from Rs.13.61 crore in FY20 to Rs.52.81 crore in FY22 due to increase in inventory and debtors level. Further, average of maximum utilisation of working capital borrowings of MDY was 58.59% in the last 12 months ended December 2021. MDY's operating cycle remained moderate at 46 days in FY21 as against 33 days in FY20.

Analytical approach: Combined

For analysis purpose, CARE has considered a combined financials of the group entities Modi Dairy, Milk Foods Aids Private Limited & Lotus Dairy Products Private Limited (MDY, MFA and LDPL) as all these entities are engaged in same line of business, have common promoters and have operational and financial linkages.

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology - Manufacturing Companies](#)

[Liquidity analysis of Non-financial sector entities](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the Group

H.P. Modi group mainly consists of four major entities including MDY, Milk Food Aids Pvt. Ltd. (MFA) and Lotus Dairy Products Pvt. Ltd. (LDPL) which are also engaged in the same line of business of processing of milk and manufacturing of value-added dairy products i.e. ghee, paneer, chaas etc. while other group entity Amar Pratap Developers Private Limited (APDPL) is engaged in real estate business.

Brief Financials (Rs. crore) (Modi Group)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	833.04	596.07	*725.58
PBILDT	48.92	60.16	47.30
PAT	23.68	32.20	21.19
Overall gearing (times)	0.73	0.40	NA
Interest coverage (times)	5.36	9.06	11.40

A: Audited; UA: Un Audited; NA: Not available

*Due to non availability of data the interparty transaction is not netted off in 9MFY22 (UA)

About the Company

Bikaner (Rajasthan) based Modi Dairy (MDY) is a partnership firm formed in May 2011. MDY is promoted by members of Modi family i.e. Mr. Arun Kumar Modi and Mr. Ashok Modi, the present partners. MDY is part of H.P. Modi group which had started dairy business in 1968 with small milk procurement and trading firm. Since inception, MDY was involved in the sale of processed chilled milk apart from trading of other dairy products. Subsequently, MDY has set-up plant & machinery at Bikaner for manufacturing different value-added dairy products including, skimmed milk condensed, skimmed milk powder, butter and ghee. MDY has capacity of processing 5 lakh litres per day (LLPD) of raw-milk and producing 50 tonnes per day (TPD) of milk powder as on February 28, 2022.

Brief Financials (Rs. crore) (Modi Dairy)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (UA)
Total operating income	486.55	323.71	318.53
PBILDT	34.69	34.26	31.14
PAT	21.88	20.80	14.95
Overall gearing (times)	0.99	0.76	NA
Interest coverage (times)	7.82	8.60	9.30

A: Audited; UA: Un Audited; NA: Not available

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Facilities	IS IN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	January-2022	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	60.00	CARE BBB; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	-	-	1)CARE BBB; Stable (06-Apr-21)	1)CARE BBB; Stable (06-Apr-20)	1)CARE BBB; Stable (03-Apr-19)	1)CARE BBB; Stable (05-Apr-18)
2	Fund-based - LT-Cash Credit	LT	60.00	CARE BBB; Stable	1)CARE BBB; Stable (06-Apr-21)	1)CARE BBB; Stable (06-Apr-20)	1)CARE BBB; Stable (03-Apr-19)	1)CARE BBB; Stable (05-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities - Nil

Annexure 4: Complexity level of various facilities rated for this company

Sr. No	Name of facilities	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated facilities: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra

Contact no.: +91-22-6754 3573

Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Manohar S Annappanavar
Contact no.: 8655770150
Email ID: manohar.annappanavar@careedge.in

Relationship Contact

Name: Deepak Prajapati
Contact no.: 9099028864
Email ID: deepak.prajapati@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a 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. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**