

## Umang Dairies Limited

May 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	35.00	CARE BBB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The long-term rating assigned to bank facilities of Umang Dairies Limited (UDL) derives strength from benefits emanating from being a part of the well-established JK group having presence across diversified business segments including cement, paper, tyre, agro-chemicals and dairy among others. UDL is held and promoted by the JK group's Holding company 'Bengal & Assam Co Ltd. (BACL, rated CARE AA-; Stable)' thus having ease of access to bank debt and support flowing from the group in form of inter-corporate deposits (ICDs). The rating also derives comfort from the company's experienced promoters having a long track record of operations and company's established procurement & distribution network with wide geographical presence.

Ratings further draw comfort from UDL's modest scale of operations demonstrating moderate growth trajectory over past four to five years through FY23 (refer to period April 01 to March 31) and UDL's association with reputed institutional clients like Mother Dairy and others for their job-work requirements which help the company in fully utilising its plant capacity and thereby achieving economies of scale. CARE Ratings Limited (CARE Ratings) also takes note of the undergoing demerger of UDL into Panchmahal Properties Ltd (PPL, wholly owned subsidiary of BACL). On successful implementation of the proposed scheme, UDL will become wholly owned subsidiary of BACL.

However, rating strengths are, partially offset by the company's average financial risk profile marked by low net worth base, moderate debt coverage indicators, the seasonal nature of operations and intense competition in dairy business from large and unorganised players. The rating is constrained by volatility in operating margins to fluctuation in milk, skimmed milk powder (SMP) and butter prices and working capital intensive nature of operations with high inventory holding requirement.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Substantial Improvement in total operating income (TOI) and profit before interest, lease rentals, depreciation, and tax (PBILDT) margins over 5% on sustained basis
- Improving Net Debt to PBILDT below 2x

#### Negative factors

- Sustained decrease in its TOI below ₹200 crore with decreasing PBILDT margin
- Stretching of working capital cycle leading to deteriorating liquidity position
- Parent shareholding reducing below 51% or any change in support by the group to UDL.

**Analytical approach:** Standalone. However, the rating factors in the strong management and financial linkages with the JK group and the holding company Bengal & Assam Co Ltd. (BACL, rated CARE AA-; Stable)

#### Outlook: Stable

Stable outlook reflects that the rated entity is likely to maintain its modest scale and profitability levels in the medium term and will continue to receive need-based financial and management support from being part of the well-established JK group and held by Bengal and Assam Company Limited (BACL).

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

#### Part of the JK group with strong parentage and need-based financial support

UDL was promoted by Bengal and Assam Company Ltd (BACL) which is an investment arm of the JK group. Bengal & Assam Company Ltd (BACL) is the holding company for the JK Group. BACL holds around 55.3% shareholding in UDL. Apart from Umang Dairies, BACL has the majority shareholding across the JK group companies namely JK Tyre & Industries Ltd (JKTI), JK Agri Genetics Ltd (JKAL), JK Lakshmi Cement Ltd (JKCLP) and JK Paper Ltd, among others. UDL continues to benefit from financial flexibilities being part of the JK group and extensive experience of the management team.

Cash accruals of the company have moderated in the past due to weak profitability and liquidity position of the company was then supported by unsecured loans in the form of inter-corporate deposits (ICDs) infused by the JK group in FY22 and FY23. UDL has ICDs outstanding to the tune ₹14 crore as on March 31, 2024.

The Board of Directors of Umang Dairies Limited (UDL) at its meeting held on June 28, 2023 have approved a composite Scheme of Arrangement among Bengal & Assam Company Limited (BACL), the parent company, Panchmahal Properties Limited (PPL), a wholly owned subsidiary of BACL, and Umang Dairies Ltd (UDL) for the demerger of dairy business of UDL into and with PPL and merger of residual UDL into and with BACL, from April 1, 2023 (the appointed date). The said transaction will be a share swap deal and there will no cash involved in the transaction. On implementation of the scheme, UDL will cease to exist, However, the dairy business will continue to be part of the JK group. Post the proposed de-merger, UDL will become the wholly owned subsidiary of the group's investment arm 'BACL'. Going forward as well, CARE Ratings expects UDL to benefit from financial flexibilities being part of the JK group and continue to receive need-based financial support.

#### Established procurement and distribution network and association with reputed institutional clients like Mother Dairy and others

The company has well-established procurement and distribution network with over 1,300 suppliers and a farmer network of more than 25,000 farmers spreading across 300 village collection centres. This procurement process is repeated twice a day to keep the freshness of the milk intact and after a thorough check, the milk is sent to the company's chilling and bulk milk cooler centre situated in Gajraula, Uttar Pradesh.

UDL has a distribution network of more than 800 distributors engaged in selling various milk-based products like ghee, butter, SMP and other milk products which are sold under own brand name in northern and eastern regions of India. From time to time, UDL keeps investing in retail distribution expansion and up-gradation of distribution infrastructure.

Apart from selling milk products under its own brand, UDL also undertakes certain job work and earns conversion charges on it. The company has contracts with Mother Dairy and others for job work which includes conversion of raw milk supplied by Mother Dairy into SMP and butter among others. These job-work contracts help the company in fully utilising its plant capacity and thereby achieving economies of scale.

Job-work revenue, being primarily the conversion charges earned for services rendered, often does not significantly impact the company's topline, however has a positive impact on its operating profitability. In FY23, job-work revenue accounts for 17% of total revenue of the company (PY: 20%).

#### Improving operating profitability, amidst reduction in FY23

UDL reported a TOI of ₹293.66 crore in FY23, which increased from ₹224.65 crore in FY19, exhibiting a compound annual growth rate (CAGR) of 7%. This growth is attributed to improvement in realisations and moderation in input costs. The company has also reported TOI of ₹215.96 crores for 9MFY24. However, the company's PBILDT margin has declined from 4.6% in FY20 to 1.48% in FY23 due to high cattle feed and fodder costs for dairy farmers, leading to increased procurement expenses across the industry. The company's operating profitability is expected to improve in FY24. This improvement in profitability is attributable to the company's strategic shift in focus from commoditised products such as SMP and butter to the promotion of its own brand products and job-work operations has contributed to enhanced revenue and margin performance. UDL is expected to have a modest scale of operation and profitability going forward.

### Key weaknesses

#### Seasonal nature of operations in dairy industry

India being a tropical country renders a hot and humid climate for animals and thus there is a fluctuation in milk production and prices across different seasons. Normally May to October is a lean season for milk production while November to April is a flush season in the cooler parts. UDL converts the procured milk largely in flush season into ghee and SMP, among other value-added products. This leads to increased inventory holding to maintain the continuous supply of products round the year, translating into high working capital requirement in the year-end period and higher reliance on working capital to fund the same, as the credit period from villages where milk is sourced is usually low. Further, the stifling heatwaves and acute water scarcity in several parts of India is likely to impact milk production in H1FY25 leading to increased procurement cost for industry.

### Susceptibility to volatile milk prices & Intense competition in the industry

The dairy industry typically operates on narrow profit margins, largely because the cost of raw milk constitutes a significant portion of its total cost. The availability and pricing of raw milk nationwide are influenced by various external factors such as climatic conditions, the cost of cattle feed, and outbreaks of diseases like Lumpy Skin Disease, making the industry's margins highly sensitive to fluctuations in milk prices. In FY23, UDL experienced a moderation in margin due to rising milk costs. Despite implementing price hikes, the company was unable to fully transfer these higher costs to consumers.

The industry also has relatively low product differentiation and Industry's landscape is predominantly unorganised with many small-scale unorganised players in the industry. This makes UDL vulnerable to intense competition from large cooperatives like AMUL and Mother Dairy, among others and other local players.

### Average financial risk profile

The financial risk profile of the company is moderate, characterized by an overall gearing of 1.3 times as on March 31, 2023, and 1.2 times as on March 31, 2022, owing to low net worth of Rs 43.53 crore and Rs 46.62 respectively. UDL has moderate Interest coverage Ratio (ICR) of 0.89 times for FY23, improved from negative 3.12 times for FY22. UDL relied on ICDs for payment of interest, debt repayments and other operational expenses in the past on account of lower profitability. CARE Ratings has factored in continued group support from JK Group as & when required by UDL going forward as well.

### Liquidity: Adequate

The liquidity profile of UDL is Adequate aided by modest expected cash accruals, absence of any large capital expenditure (capex) and continued support from the JK group. UDL is expected to have a cash accrual of ₹8-10 crore for next two years and against this scheduled debt repayments are not more than ₹2 crore annually. The company's liquidity is supported by modest cash and bank balance amounting to ₹3.60 crore, and unutilised cash credit (CC) limit of ₹10 crore as on March 31, 2024. Liquidity of UDL is further supported in the form of ICDs given by the JK group, outstanding amount of which is ₹14 crore as on March 31, 2023. In the absence of any major planned capex, the company's liquidity is adequate to service its debt obligations and meet maintenance capex requirements.

### Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast moving consumer goods	Fast moving consumer goods	Food products	Dairy products

Formerly known as JK Dairy and Foods Ltd, UDL was incorporated in 1992. The company is a part of the JK group and is promoted by Bengal and Assam Company Ltd (BACL, rated CARE AA-; Stable). BACL holds 55.30% in the company. UDL operates in dairy business through its facility in Gajraula, Uttar Pradesh with an installed capacity of 4.5 lakh litres per day (LL/D). The equity shares of both UDL and BACL are listed on stock exchange. The company sells varied milk-based products under its own brand name namely, White Magik, Milk Star, Umang Dairy Creamer, Top Paneer, and Umang Cow Milk, to name a few which are sold mostly in the north and eastern parts of India.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	204.89	293.66	215.96
PBILDT	-13.41	4.34	0.35
PAT	-14.26	-3.26	NA
Overall gearing (times)	1.20	1.30	NA

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Interest coverage (times)	-3.12	0.89	NA

A: Audited UA: Unaudited; NA: Not available, Note: 'these are latest available financial results'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE BBB+; Stable

#### Annexure-2: Rating history for the last three years:

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

#### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

#### Annexure-5: Lender details

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

**Note on the complexity levels of the rated instruments:** CARE Ratings 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

<p><b>Media Contact</b></p> <p>Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a></p> <p><b>Relationship Contact</b></p> <p>Saikat Roy Senior Director <b>CARE Ratings Limited</b> Phone: 91 22 6754 3404 E-mail: <a href="mailto:saikat.roy@careedge.in">saikat.roy@careedge.in</a></p>	<p><b>Analytical Contacts</b></p> <p>Pulkit Agarwal Director <b>CARE Ratings Limited</b> Phone: 91-226-7543505 E-mail: <a href="mailto:pulkit.agarwal@careedge.in">pulkit.agarwal@careedge.in</a></p> <p>Ravleen Sethi Associate Director <b>CARE Ratings Limited</b> Phone: 91-120-4452016 E-mail: <a href="mailto:ravleen.sethi@careedge.in">ravleen.sethi@careedge.in</a></p> <p>Kunal Sharma Lead Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Kunal.sharma@careedge.in">Kunal.sharma@careedge.in</a></p>
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### About us:

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