

Gyandhara Industries Private Limited (erstwhile S.P. Lab)

February 25, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	11.11 (Enhanced from 7.50)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	11.11 (Rs. Eleven Crore and Eleven Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Gyandhara Industries Private Limited (GIPL) factors in growing albeit small scale of operations, modest profitability margins, and competition from other established players. However, the ratings derive strength from experienced directors & management team, comfortable financial risk profile marked by low overall gearing, completion of cattle feed manufacturing project along with commencement of the commercial operations, operational linkages from the group company C.P. Milk & Food Products Pvt Ltd (CPMF) (rated CARE BBB; Stable/CARE A3) along with established selling and distribution network.

Rating Sensitivities

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

- Ability of company to scale up its operations by more than Rs 100 crore or more going forward on a sustained basis and without any adverse impact on its profitability margins.

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

- Increase in overall gearing beyond 2.0x on a sustained basis.
- Any elongation in the collection and inventory period leading to working capital cycle of more than 50 days impacting the liquidity profile of the company.

Detailed description of the key rating drivers

Key Rating Weaknesses

Growing albeit small scale of operations: The scale of operations of the company although small grew by 33.51% to Rs.80.17 crore in FY21 (refers to the period from April 01 to March 31) (PY: Rs.60.05 crore) driven by rise in demand of cattle feed. The PBILDT margin of the company improved from 5.29% in FY20 to 7.87% in FY21 primarily on account of reduction in cost of raw material (maize, rice bran) as a percentage of total operating income from 79.57% in FY20 to 75.61% in FY21. Consequently, the PAT margin of the company improved from 0.91% in FY20 to 2.43% in FY21. During 9MFY22 (refers to the period from April 01 to December 31), the company reported total operating income of Rs.69.41 crore. The PBILDT margin and PAT margin of the company stood at 5.96% and 1.28% during 9MFY22 respectively.

Competition from other established players: The company faces competition from the other players with well established brands and companies. GIPL is however leveraging the distribution network of CPMF to further increase its presence in Uttar Pradesh. CPMF sells the produce of GIPL to its network of ~75,000 farmers from whom it procures milk in and around Uttar Pradesh.

Key Rating Strengths

Experienced directors and management team: The directors of GIPL are the spouses of Mr. Jai Agarwal & Mr. Anuj Agarwal, Directors of C.P. Milk & Food Products Pvt Ltd. Mrs. Ritu Agarwal (Managing Director) has done her B.Tech in I.T. and is on the Board of Entrepreneur's Organization, 'U.P Chapter' as Spousal Champion and is also working as a part of the Executive Council, Young Indians, (Lucknow Chapter) Heading the Branding Vertical. Mrs. Jyotsna Agarwal (Director) is Post Graduate in Economics and is currently heading the Masoom Vertical under Young India (Confederation of Indian Industry).

Comfortable Financial risk profile: The overall gearing of the company stood comfortable at 0.88x (PY: 0.35x) as on March 31, 2021. The deterioration in overall gearing was on account of additional term loan to the tune of Rs.4.23 crore availed during FY21 to fund capex pertaining to capacity expansion (from 45,000 MTPA as on March 31, 2020 to 78,000 MTPA as on March 31, 2021), infusion of unsecured loans to the tune of Rs.4.10 crore, and withdrawal of capital to the tune of Rs.4.03 crore during FY22. The unsecured loan from promoters and related parties does not have a specified repayment structure and is availed at an interest rate of 9% per annum. The debt coverage indicators of the company remained moderate as reflected by the PBILDT interest coverage ratio of 3.92x (PY: 2.71x) and total debt/GCA of 2.80x (PY: 2.78x) in FY21.

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

Established sales & distribution network through well-established CPMF's network: In FY21, GIPL sold 71.57% (PY: 71.02%) of its produce to CPMF, which further sells it to farmers and villages through its well-established network and the remaining is to other players (like Sahaj Dairy, Paras dairy, Bapudham milk etc.) and other farmers through its own distributors/retailers in the geographies where CPMF does not have a distribution network. During FY21, company exported to Nepal which contributed to 6.27% of total sales (PY: 7.83%). All sales to Nandan Agro Trading (Nepal) are backed by LC and are fully secured. Currently, the company has around 20 distributors in its own distribution channel. CPMF procures milk from ~75,000 local farmers in and around UP from the local collection centres. The company sources milk from 3,000 villages and has tie-ups with more than 223 village level collection centres (VLC) for continuous milk supply along with 18 chilling centres across UP for collection of milk. Thus, through this network of procurement, GIPL is able to sell its produce to the end farmers. 100% of fodder requirement of CP milk is being fulfilled by GIPL.

High requirement for availability of animal feed: Uttar Pradesh tops in milk production in India, however the productivity of cattle is restricted because of their poor genetic make-up along with illiteracy of farmers to use nutritive supplements instead of traditional/routine feeds. Intake of cattle supplements improves the general health condition of cattle and leads to a high yield of good quality milk that is rich in fat, protein and sweetness. Thus, there is a growing need for farmers to revolutionize to enhance the quality of animal feed by balancing and enriching all required nutrients.

Industry Prospects: The dairy industry is expected to grow by 9%-11% in FY22 (refers to the period from April 01 to March 31), driven by a revival in economic activities, increasing per capita consumption of milk and milk products, changing dietary preferences due to rising urbanization, and continued government support. Domestic milk production is estimated to increase by 5%-6% in FY22, supported by a normal monsoon and early onset of the flush season in some regions. Post the moderate impact of the pandemic, the industry witnessed a steady recovery in consumption across end segments.

Liquidity: Adequate-Liquidity is marked by projected gross cash accruals to the tune of Rs.2.98 crore during FY22 against scheduled repayment of term loan to the tune of Rs.0.50 crore during FY22. Average utilization of working capital borrowings stood around 45% for the trailing 12 months ended December, 2021. The company had free cash and bank balance of Rs.2.03 crore as on March 31, 2021. The company is not projected to incur any capex in the near future.

Analytical approach: Standalone, however factoring in the business and operational linkages from the group company C.P. Milk and Food Products Private Limited.

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the Company

GIPL (erstwhile S.P. Lab) was incorporated as a private limited company on January 19, 2021 and is engaged in the business of manufacturing of cattle feed. Mrs. Ritu Agrawal and Mrs. Jyotsna Agarwal, the two directors of the company are spouses of Mr. Jai Agarwal & Mr. Anuj Agarwal who are the directors of C.P. Milk & Food Products Pvt Ltd. The company sells its products under brand name of 'Gyandhara'. Till FY18, GIPL was undertaking only trading activities of cattle feed. In 2017, the company was allotted a plot at UPSIDC Industrial Area, Sandila having an area of 19,728 sq.mtrs for establishment of 'Cattle Feed' manufacturing unit. The capacity of the plant is 78,000 Metric tonne per annum.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (P)
Total operating income	60.05	80.17	69.41
PBILDT	3.18	6.31	3.65
PAT	0.55	1.95	0.89
Overall gearing (times)	0.35	0.88	0.65
Interest coverage (times)	2.71	3.92	2.52

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	November, 2026	4.11	CARE BB+; Stable
Fund-based - LT-Cash Credit		-	-	-	7.00	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/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	4.11	CARE BB+; Stable	-	1)CARE BB+; Stable (24-Dec-20)	1)CARE BB+; Stable (10-Jan-20)	-
2	Fund-based - LT-Cash Credit	LT	7.00	CARE BB+; Stable	-	1)CARE BB+; Stable (24-Dec-20)	1)CARE BB+; Stable (10-Jan-20)	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Not applicable**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	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 instrument: 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.

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