

## Gokul Dairy Products

May 26, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	16.00	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>16.00</b> <b>(Rs. Sixteen</b> <b>Crepe Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE has been seeking "No Default Statement" from Gokul Dairy Products to monitor the rating(s) vide e-mail communications dated March 16,2022, April 05,2022, April 18,2022, May 02,2022 and May 06,2022 and numerous phone calls. However, despite our repeated requests, the company has not provided the "No Default Statement" for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating. The rating on Gokul Dairy Products will now be denoted as CARE B; Stable; ISSUER NOT COOPERATING\*.

### Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.

The revision in rating of bank facilities of Gokul Dairy Products is on account of non-submission of No Default Statements (NDS) for 3 consecutive months i.e. for the months of March 2022, April 2022 and May 2022. Further, CARE is unable to interact with lenders and auditor of the entity to assess its ability to service the debt obligations and hence the revision in rating.

### Detailed description of the key rating drivers

At the time of last rating on January 19,2022 the following were the rating strengths and weaknesses.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Modest Scale of operations

The scale of operations of the firm has declined by 14.36% and stood at Rs.48.37 crore in FY21(Prov.) when compared to Rs. 56.48 crore in FY20(A) on account of Covid-19 impact. The firm majorly depends on commercial sales (Such as sales to restaurants and catering services) and since their operations were affected inturn impacted firm's sales. Sales picked up in H2FY21 and H2FY22 on account of opening food and related sectors helping in the recovery but increasing restrictions in recent times may impact its operations again. The firm has achieved the total operating income of Rs.36.27 Cr in 9MFY22.

#### Moderate financial risk profile

GDP's PBILDT margin marginally improved to 3.71% in FY21(Prov.) when compared to 3.28% in FY20 due to reduction in overheads but is still lower than 4.5-5% margins earned by it in the past. Reduction in sales translated into reduction in PAT and GCA. With increase in term debt levels, it is imperative for firm to improve its profitability so as to maintain debt coverage indicators at satisfactory levels.

The overall gearing deteriorated to 2.61x as on March 31, 2021 when compared to 1.94x as on March 31,2020 on account of full utilisation of working capital limits and ECGL availed to meet the operational liabilities and for purchase of inventory. WC utilization of the firm is near full for 12 months ended December 31, 2021.

#### 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. Correspondingly, there is high requirement of funds during the peak season i.e. winter months from October-February.

#### Geographical Concentration risk

The firm purchases raw milk from the suppliers in Karnataka and Tamil Nadu and sells the final products to the customers in Karnataka and Tamil Nadu leading to concentration of sales pertaining to these states. In order to reduce the same, the firm has started its marketing programme in order to capture the untamed markets in the states of Karnataka, Tamil Nadu and Andhra Pradesh. The firm recently started selling of ghee and other by products in online platforms in the areas of Chennai, Bangalore and Hyderabad.

<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

### Competition from the organized and un-organized sector and environmental risk

The 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. The group is exposed to environmental risk related to epidemic, since its entire milk collection is from the milk producers in Karnataka and Tamil Nadu.

### Constitution of the entity as a partnership firm concern with inherent risk of withdrawal of capital

The firm's constitution as a partnership concern with moderate net-worth base restricts its overall financial flexibility in terms of limited access to external fund for any future expansion plans. Furthermore, there is an inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency of partners. Further the partners have withdrawn a capital of Rs.0.48 crore in FY21 (Prov.)

### Key Rating Strengths

#### Long track record and experienced partners for more than a decade in dairy industry

The firm was established in 1997, hence it has long track record of operations. GDP is promoted by Mr. K N Krishnamurthy, who looks after the overall affairs of the firm. The firm is also managed by Mr. K N Ranganath, who looks after the office maintenance and Ms. K Supriya, who looks after the administration department. The partners are into the same line of business since last 2 decades, which enables the firm to get the repeated orders from existing customers along with new customers

#### Established relationship with the customers and suppliers

GDP has established relationship with some of its major customers such as Ali-CTD, Ragavendra Milk Parlour, Revanna M R etc which helps the firm to get the repeated orders.

#### Stable demand outlook for dairy industry

The dairy industry is expected to grow by 9-11 percent in 2021-22, driven by revival in economic activities and increasing per capita consumption of milk and milk products and change in dietary preferences on account of rapid urbanisation. The domestic milk production is expected to be increase by 5-6 percent in 2021-22, supported to moderate monsoon and flush season. The industry has witnessed a recovery post the second wave of covid-19 and with increase in sales during the festive season the recovery is expected to be recovered before the estimated time period. Raw milk procurement prices, which were subdued in FY21 due to weak demand, have increased in the current fiscal supported by a recovery in demand. Nevertheless, the higher procurement costs are not compensated by an equivalent increase in selling prices, which coupled with elevated fuel costs will result in contraction of 150 bps margins for dairy players in FY22. Along with offering profitable business opportunities, the dairy industry in India serves as a tool of socio-economic development. Keeping this in view, the Government of India has introduced various schemes and initiatives aimed at the development of the dairy sector in the country.

**Analytical approach:** Standalone

### Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

### About the Company

Kunigal (Karnataka) based, Gokul Dairy Products (GDP) was established in 1997 as a partnership firm by Mr. K.N. Krishna Murthy along with his family members. The firm is engaged in the processing of milk and manufacturing of value-added products like condensed, skimmed milk powder, milk cream, khova and ghee. GDP has installed capacity of processing 1 lakh litres per day of raw-milk as on December 31,2021 It sells processed milk under the brand name "Kaveri" and milk products under the name "Milky Wave" mainly in the states of Karnataka, Andhra Pradesh and Tamil Nadu. The milk is procured from the local farmers on an average of 40,000 litres per day.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (Prov.)	31-12-2021(Prov.)
Total operating income	56.48	48.37	36.27
PBILDT	1.85	1.79	NA
PAT	0.29	0.17	NA
Overall gearing (times)	1.94	2.61	NA
Interest coverage (times)	1.79	1.76	NA

A: Audited; Prov.: Provisional || NA: Not available

**Status of non-cooperation with previous CRA:** ACUITE has placed the ratings under Issuer Not Cooperating as per PR dated April 09,2021

**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-Cash Credit		-	-	-	11.21	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	April 2024	2.91	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan		-	-	April 2024	1.88	CARE B; Stable; ISSUER NOT COOPERATING*

#### 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 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Bank Overdraft	LT	-	-	-	-	1)Withdrawn (16-Sep-20)	1)CARE BB-; Stable (24-Sep-19)
2	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (16-Sep-20)	1)CARE BB-; Stable (24-Sep-19)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (16-Sep-20)	1)CARE BB-; Stable (24-Sep-19)
4	Fund-based - LT-Cash Credit	LT	11.21	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (19-Jan-22)	1)CARE BB-; Stable (18-Nov-20)	-
5	Fund-based - LT-Term Loan	LT	2.91	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (19-Jan-22)	1)CARE BB-; Stable (18-Nov-20)	-
6	Fund-based - LT-Term Loan	LT	1.88	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (19-Jan-22)	1)CARE BB-; Stable (18-Nov-20)	-

LT: Long Term

\*Issuer Not Cooperating

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities**

Name of the Instrument	Detailed explanation
<b>A. Financial covenants</b>	Nil
<b>B. Non financial covenants</b>	Nil

**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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### About CARE Ratings Limited:

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