

Govind Milk and Milk Products Private Limited

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	45.72 (enhanced from 36.79)	CARE BBB- [Triple B Minus]	Reaffirmed
Total Facilities	45.72		

Rating Rationale

The rating continues to derive strength from Govind Milk and Milk Products Private Limited's (GMPL) experienced promoters, long track record of operations in the dairy industry and long standing relationship with the farmers along-with diverse product portfolio. The rating also factors in the reputed clientele, increasing scale of operations and changing product mix.

The rating, however, continues to remain constrained on account of GMPL's relatively low profitability margins and higher dependence on working capital borrowings resulting in moderate gearing ratios. Furthermore, the rating also takes into account the competition from organized and unorganized players in the dairy industry, epidemic risk of diseases affecting cattle and milk yield from the cattle along-with ongoing debt-funded capex.

The company's ability to improve its profitability margins amidst increasing competition along-with efficient management of the working capital cycle and to complete the ongoing capex within the envisaged time and cost are the key rating sensitivities.

Background

GMPL was incorporated in the year 1996 by Mr SV Naik Nimbalkar and Mr GM Dhumal, chairman and managing director of the company respectively. The company is engaged in the processing of milk and milk products, viz, skimmed milk powder (SMP), flavored milk, paneer, butter, ghee, curd, lassi and ice cream amongst others. The products of the company are sold under the brand name of 'Govind'. The manufacturing facility of the company is located at Phaltan, Maharashtra, with an installed milk processing capacity of 6 lakh litres per day (llpd), 8 Metric Tonnes (MT) per day of ghee, 10 MT per day of butter, 1 MT per day of paneer, 4 MT per day of shrikhand, 4,000 liters of lassi per day, 4 MT per day of curd and 3,000 liters of flavored milk per day. During FY12 (refers to the period April 01 to March 31), GMPL's new skimmed milk powder plant commenced commercial operations, with an installed capacity of 30 MT per day. During FY13, GMPL also started exporting SMP to international markets including Singapore, Algeria and Pakistan.

Credit Risk Assessment

Experienced promoters

The promoters have an experience of over a decade in the area of dairy business and have been making efforts to grow the business by expanding the product portfolio. Mr SV Naik Nimbalkar, the chairman of the company, is the grandson of the late Mr Malojiraje Naik Nimbalkar, the former ruler of the erstwhile state of Phaltan. The top management of the company is supported by a team of experienced professionals in managing the day-to-day operations.

Long-term relationship with the farmers and strong procurement network

Milk is the primary raw material for GMPL which the company continues to procure from local dairy farmers in Phaltan. The company has also established a number of milk parlors equipped with bulk coolers where the farmers take their cattle for extraction and storage of milk resulting in enhancement of the shelf life of milk. In the absence of any long-term contracts, it is essential for the company to maintain cordial relationship with these farmers. GMPL has been assisting the farmers in terms of veterinary guidance and technical know-how for increasing the yield of milk. GMPL has set up 25 new bulk milk coolers over the period from March 2014 to August 2014 and currently has around 200 bulk milk coolers (increased from 175 in 2013) and five chilling centers spread across an area of 250 km from its plant at Phaltan. It caters to around a base of over 4,500 farmers and milk cooperative societies. Furthermore, approximately 150 milk farmers are directly supplying milk to the company. The company is currently procuring around 5.2-5.5 llpd of milk from the Maharashtra region.

GMPL outsources the milk procurement and distribution transportation services to its associate company named Ramraje Vahatuk Sanstha (RVS). The company is owned by the chairman of GMPL. GMPL in turn purchases and sells diesel to RVS which in turn provide complete transportation services to GMPL at reasonable prices. RVS owns a fleet of around 62 milk tankers.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications

Diverse products portfolio within milk by-products segments

GMPL is gradually increasing its products portfolio by adding new value added products and changing the sales mix in order to improve the profitability margins. The company is increasing its concentration on by products of milk such as SMP, ghee, paneer, etc. During FY14, the contribution of value added products of milk increased to 46% as compared with 37% in FY13. The company has been increasing its geographic reach in order to increase the volume of sales of value added products. GMPL's exports of SMP increased during FY14 to Rs.64.50 crore (14.65% of net sales of FY14) as compared with Rs.20.5 crore during FY13 (6.65% of the net sales in FY13). GMPL earns relatively higher gross margin of around 12-15% on SMP and ghee exports.

Reputed clientele base

GMPL supplies its products to various reputed companies both in domestic and international markets. Within the domestic markets, it provides job work services for SMP and butter to various other local dairies. It supplies SMP to major FMCG brands within the domestic markets such as Vadilal Dairy International Limited, Gits Food Products Private Limited, Hersheys's, India, etc. The total Business to Business (B2B) sales accounted for around 30% of the total milk by-products sales and 15% of total sales made by GMPL during FY14. The remaining sales are made to retail markets under the brand name of 'Govind' through various distributors appointed by the company. The company has appointed a team of around 617 distributors and 11 C&F agents spread across Maharashtra, Goa, Gujarat, Karnataka, Tamil Nadu, Haryana, Punjab and Himachal Pradesh. Maharashtra remained the major contributor towards the total sales of the company contributing to around 60% of the total sales.

Working capital intensive nature of operations resulting in higher gearing levels

GMPL's inventory remains on the lower side on account of low shelf life of the raw materials and finished products. Similarly, the share of receivables to net sales is also low as the company operates primarily on cash basis. It offers a credit period of one week to the distributors and of around 10 days for B2B sales. On account of change in the product mix and addition of long shelf life products the inventory days of the company has been increasing gradually over the period resulting in increase in overall working capital cycle. Furthermore, short credit period results in increased dependence on working capital borrowings. The inventory days were around 20 days as at the end of FY14 with a collection period of seven days. The working capital cycle remained at 13 days as at the end of FY14. The current ratio of the company continued to remain below unity at 0.88x as on March 31, 2014, on account of higher bank borrowings for meeting working capital needs as the funds generated through internal accruals were utilized towards capital expenditure during FY14. The average utilization of the working capital limits remained at around 85% during twelve month ended on July 2014.

Moderate financial risk profile marked by growing total income, improving scale of operations, thin profitability margins and moderate capital structure

The total income of GMPL increased by 41.16% y-o-y during FY14 to Rs.450.30 crore during FY14 as compared with Rs.319.01 crore in FY13, a growth of 41% y-o-y. The growth was primarily supported by increase in volume of sales of pasteurized milk, SMP, ghee, butter, amrakhand and shrikhand etc. Robust growth in exports supported the growth in the total income of the company. Furthermore, the company is constantly increasing its geographic reach in domestic markets to Tamil Nadu, Karnataka, Himachal Pradesh and Punjab, and also in international market. During Q1FY15, GMPL has already achieved sales of Rs.132.96 crore. The growth was primarily backed by increased volume of sales of pasteurized milk and other milk products. The contribution of other milk products primarily SMP exports and other by products increased during FY14. The company also received a subsidy of Rs.3.10 crore during FY14 from Vishesh Krishi and Gram Udyog Yojana for the exports of SMP.

The operating margins of the company were lower during FY14 primarily due to increased price of raw milk by around Rs.5 to R.5.5 per litre during FY14. The prices of milk increased during FY14 on account of increased demand for milk as a result of introduction of scheme by the government for providing 5% export incentive for export of SMP in February 2013. Increased demand for milk along with increased fodder cost resulted in high cost of milk during the period. The company was not able to transfer the entire increased costs to the end customers due to high competition. Consequently, the profitability margins of the company were impacted.

The capital structure of the company improved as on March 31, 2014, marked by debt-equity and overall gearing ratios of 0.85x and 1.48x respectively as on March 31, 2014, as compared with 1.11x and 1.98x respectively as on March 31, 2013. Improvement in the capital structure is on account of improved net-worth to Rs.28.19 crore as on March 31, 2014, and scheduled repayment of debt. The net-worth has further improved by Rs.0.21 crore during Q1FY15 on account of infusion of promoter's funds and receipt of capital subsidy of Rs.0.51 crore towards Industrial Promotion Scheme. Furthermore, the total debt to GCA improved

during FY14 to 3.73x as compared with 4.10x in FY13.

Competition from the private dairies and co-operatives

The dairy business is highly fragmented and dominated by a few large players having a nationwide presence. The competition is intense due to the presence of a large number of regional and local milk and milk product suppliers. Around 80% of the domestic dairy industry consists of unorganized players, fragmented in various regions. GMPL faces intense competition from bigger private players and co-operative dairy societies with well established brands as well as players in the unorganized sector comprising milk vendors. However to overcome the same, GMPL is investing in advertisement and promotional activities on a regular basis to increase the awareness of its branded products in various cities.

Ongoing debt funded capex

The company is in the process of undertaking a capital expenditure towards enhancement in the existing production capacities of ghee from 8 MT per day to 16 MT per day and of paneer from 1 MT per day to 2 MT per day. Also, it plans to set up a new water treatment plant, 50 new bulk milk coolers to increase the milk collection capacity and two new sales depots at Mumbai. The total capital expenditure is envisaged to cost Rs.14 crore and the same is expected to be funded through term loan of Rs.9.86 crore (already sanctioned), promoters' contribution of Rs.1.85 crore and remaining through internal accruals. GMPL has already incurred a cost of Rs.5.40 crore during Q1FY15 funded through the sanctioned term loan. The capex is expected to get completed by February 2015. The timely completion of the proposed capital expenditure along with no cost overrun remains crucial from the credit perspective.

Prospects

The prospects of GMPL would be governed by its ability to further improve its scale of operations, profitability margins, gearing levels and efficient management of working capital on the back of increasing production of longer shelf life products.

Financial Performance

(Rs. Cr)			
For the period ended / as at March 31,	2012 (12m, A)	2013 (12m, A)	2014 (12m, Prov)
Working Results			
Net Sales	263.17	308.33	440.04
Total Operating income	267.19	319.01	450.30
PBILDT	17.94	17.64	17.62
Interest	4.26	4.94	5.81
Depreciation	10.48	6.44	6.62
PBT	3.46	6.34	5.45
PAT (after deferred tax)	1.86	4.43	4.52
Gross Cash Accruals	13.26	11.15	11.22
Financial Position			
Equity Share Capital	7.51	7.51	7.64
Net Worth	17.99	23.10	28.19
Total capital employed	56.98	69.01	70.10
Key Ratios			
<i>Growth</i>			
Growth in Total Op. income (%)	42.32	19.39	41.16
Growth in PAT (after D. Tax) (%)	51.47	137.70	1.98
<i>Profitability</i>			
PBILDT/Total Op. income (%)	6.71	5.53	3.91
PAT (after deferred tax)/ Total income (%)	0.70	1.39	1.00
ROCE (%)	13.81	17.97	16.12

RONW (%)	9.29	21.56	17.62
<i>Solvency</i>			
Long Term Debt Equity ratio (times)	1.55	1.11	0.85
Overall gearing (times)	2.16	1.98	1.48
PBILDT/ Interest(times)	4.21	3.57	3.03
PBIT/ Interest (times)	1.75	2.27	1.89
Term debt/Gross cash accruals	2.10	2.29	2.13
Total debt/Gross cash accruals	2.92	4.10	3.73
<i>Liquidity</i>			
Current ratio(times)	0.64	0.86	0.88
Quick ratio(times)	0.28	0.40	0.35
<i>Turnover</i>			
Average collection period (days)	5	9	7
Average inventory period (days)	13	22	20
Average creditors period (days)	18	18	14
Operating cycle (days)	0	13	13

A: Audited; Prov.: Provisional

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(This follows our brief rational for entity published on 24 September 2014)

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