

## Sinnar Taluka Vibhagiya Sahakari Dudh Utpadak and Prakriya Sangh Limited

April 04, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	11.50	<b>CARE B+; Stable</b> (Single B Plus; Outlook: Stable)	Assigned
<b>Total facilities</b>	<b>11.50</b> (Rupees Eleven crore and Fifty lakh only)		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sinnar Taluka Vibhagiya Sahakari Dudh Utpadak and Prakriya Sangh Limited (STSL) is constrained by its small scale of operations with low profit margins, project execution, implementation and stabilization risk, moderate debt coverage indicators. The rating is further constrained by working capital intensive nature of operation, risks associated with raw milk procurement, price volatility and seasonality associated with raw material, and presence in highly fragmented industry.

The ratings however, derive strength from the long track record of the society with experienced promoters, comfortable debt capital structure, and growing demand for milk and milk products.

The ability of the society to increase its scale of operations, improve profitability while efficiently managing its working capital requirement are the key rating sensitivities.

#### Detailed description of the key rating drivers

##### Key Rating weakness

**Small scale of operations with low profitability:** The scale of operations of the society are small with total operating income of Rs.35.48 crore in FY17 and total capital employed of Rs.18.01 crore as on March 31, 2017. Small scale of operations limits the financial flexibility of the society. Furthermore, the PBILDT margin of the society increased marginally in FY17 and remained low in the range of 0.82% – 1.70% in the last three years ended FY17. Moreover, the PAT margin of the society remained low in range of at 0.16% - 0.33% in the last three years.

**Working capital intensive nature of operation:** The operations of the society are working capital intensive in nature with gross current asset days of 21 days during FY17 with funds majorly blocked in receivables. The working capital requirements are met by cash credit facility, the average utilization of the CC limit is fully utilized during peak season (December-February) and ~50% utilized during non-peak season (March-November).

**Project execution, implementation and stabilization risk:** STSL has recently enhanced its capacity by 40000 LPD (total capacity of 100000 LPD) of milk processing unit. However, the society still faces stabilization risks.

**Risks associated with raw milk procurement, price volatility and seasonality associated:** STSL procures milk primarily from local farmers and hence is exposed to the risk of quality of milk being procured. Furthermore, supply of milk is exposed to external risks like cattle diseases, and seasonality which results in volatile prices.

##### Key Rating Strengths

**Experienced promoters with long and long track record of operations:** The promoters have an experience of around nine and half years in the business of milk processing. Being in the industry for so long has helped the promoters to gain adequate acumen about the business which aids in the smooth operations of STSL.

**Comfortable solvency position:** The capital structure is comfortable owing to low dependence on external borrowings. Moreover, debt coverage indicators were also moderate due to low interest coverage ratio and high debt to GCA level.

**Growing demand for milk and milk products:** In recent years, with the increasing consumer needs, the uses of milk have been expanding from traditional dairy products to new products with high added value. It is expected that this trend will lead to further growth in milk consumption.

**Analytical Approach:** Standalone

#### Applicable criteria

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

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

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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

### About the Company

STSL is a co-operative society established in May 16, 2008. It is engaged in the business of processing of milk at its facilities located at Nasik, Maharashtra with an installed capacity of 40000 liters per day (LPD).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	33.86	35.48
PBILDT	0.54	0.60
PAT	0.10	0.12
Overall gearing (times)	0.49	0.63
Interest coverage (times)	1.54	1.94

A: Audited

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

**Any other information:** Not Applicable

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

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo 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.

**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	3.87	CARE B+; Stable
Term Loan-Long Term	-	-	October 2023	7.00	CARE B+; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	0.63	CARE B+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	3.87	CARE B+; Stable	-	-	-	-
2.	Term Loan-Long Term	LT	7.00	CARE B+; Stable	-	-	-	-
3.	Fund-based - LT-Proposed fund based limits	LT	0.63	CARE B+; Stable	-	-	-	-

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