

FRESH N NATURAL DAIRY FARMS PVT LTD

Brickwork Ratings upgrades the ratings for the Bank Loan Facilities of Rs. 10 Crs of Fresh N Natural Dairy Farms Pvt Ltd ('FNN' or the 'Company')

Particulars:

Facility* **	Amount (₹ Cr)		Tenure	Rating**	
	Previous	Present		Previous (Mar, 2020)	Present
Fund based	17.70	10	Long Term	BWR BB+ Stable Issuer Not Cooperating*	BWR BBB- Stable (Upgraded)
Total	17.70	10	Rupees Ten Crores Only		

**Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

*** Details of Bank facilities is provided in Annexure-I

*Issuer did not cooperate; based on best available information

Rating upgraded; removed from Issuer Not Cooperating Category

RATING ACTION / OUTLOOK

The ratings take comfort from FNN's established milk processing business and 15% rise in the total operating income (TOI) in FY20 (provisional).

The rating also factors in YoY stable operational performance, the established procurement base of dairy farmers/procurement companies, supported by a network of bulk coolers and chilling centres, ensuring stable supply of raw milk. The rating however, is constrained by limited geographical diversification. The Company's revenue till FY19 FY20 was concentrated towards sale of liquid milk and SMP to the large corporates in dairy and hotel industry with relatively low margins. Nonetheless, the current management of the Company is focusing on improving revenue share from the sale of high margin value-added products to the retail segment.



The stable outlook reflects the belief that FNN will benefit from current management's extensive experience and the Kute Group's established wide dealer distributors network in Indian FMCG market..

Swaraj India Industries Ltd (holding Company of FNN) along with FNN was acquired by The Kute Group's flagship Company Tirumalla Oil Refinery Pvt Ltd in July 2019.

KEY RATING DRIVERS

Experienced promoters and support from the Group: The holding Company Swaraj India Industries Ltd (SIIL) has been in the dairy business since 1999 and has an established presence in the dairy industry, with a processing capacity of nearly 20.90 lac litres of milk per day. FNN is supported by the established position and the distribution network of holding companies in the dairy business. Furthermore, being a part of the Kute Group, SIIL also benefits from the promoters' experience of reaching out to customers over a larger area.

FNN procures milk from farmers in major districts like Ahmednagar, Pune, Osmanabad, Aurangabad and Beed in Maharashtra. It has developed a base of nearly 18,000 farmers across 5 districts. The Company's milk processing plant is located in the rich cow milk producing belt of Pathardi, Ahmednagar in Maharashtra which is also well connected to the rural and urban markets in Maharashtra. At present it has 4 MCC (Milk Chilling Centers) and 45 BMC (Bulk Milk Coolers). The Milk Collection centres are located within a radius of 20-25 km from various chilling centres, majority of the milk is directly delivered to factory via tankers.

Strengthening of B2C segment: The Company, under the new management, is planning to expand the B2C segment to around 50% in next 3-5 years with addition of a few new products. The management of FNN is establishing the separate Brand called 'Tirumalla Dairy' for the B2C segment (as the Tirumalla is renowned brand of The Kute Group in FMCG market) and for the B2B segment the brand name of Swaraj/Fresh N Natural will continue. The strengthening of the B2C (retail) segment is expected to result in improved operating margins, and increased geographical presence.

Stable operational performance: The revenue growth in FY20 is 15% as against 7.2% in FY19. YoY revenue growth reflects in better capacity utilization, expansion in new geography and newly added customer base over the years. The Company has now shifted its focus on expanding margins and achieving higher profitability with higher contribution of value added products. During Q1FY21 the Company has achieved revenue of Rs.71.48 Crs as against revenue of Rs.62.39 Crs in Q1FY20.



Strong marketing and distribution network: The current management is focusing on strengthening FNN's existing integrated strategy across the dairy value chain – from sourcing and processing, to branding and distribution in rural and urban markets. The Kute group with their extensive experience in the across value chain of FMCG market, can bring a lot of expertise in branding, distributing, marketing of FNN's value added products in B2C (retail) segment.

Favourable demand for the products: The milk and milk products being the essential commodities the COVID-19 and associated lockdown had limited impact on the operations of the Company and demand for its products, though some part of B2B (institutional) segment got affected with the closure of hotels/ restaurants. However, household/B2C demand has remained resilient to the impact of the COVID-19 outbreak and with the current management's greater focus on the B2C segment it may contribute meaningfully to the Company's revenue in FY21.

Geographical concentration in revenue: The Company has geographical concentration as large part of revenue is generated from western part of Maharashtra, but the nature of the product and processing is such that the concentration is not a hindrance.

High Competition: The industry being highly competitive, FNN has competition from other established players and other milk processing units in the market.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA:

BWR has principally relied upon the audited financials of FNN from FY17 to FY19, provisional FY20 financials, publicly available information and information/clarification provided by the management.

RATING SENSITIVITIES

Positive: If the Company achieved the envisaged revenue and profitability for the current year (FY21)

Negative: If the Company's cash accruals are lower than expected, stretch in the working capital cycle weakens the capital structure and the liquidity position.

LIQUIDITY POSITION

Liquidity profile of the Company is adequate with cash accruals of Rs.4.40 Crs against repayment obligation of Rs.0.02 Crs. Liquidity is also supported by the unsecured loan from holding Company is the tune of Rs.8.78 Crs. Average CC utilisation in the last six months ending June 2020 is 90-95%. Current ratio is comfortable at 1.71 times as on 31st March 2020.



COMPANY PROFILE

Fresh N Natural Dairy Farms Pvt Ltd ('FNN ' or 'the Company') was incorporated on 6th June 2014. FNN is present across the supply chain of milk procurement, processing and marketing of liquid milk and milk products under the brand name of 'Swaraj'. The dairy products manufactured and marketed by the company include cow milk, ghee, butter, skimmed milk powder (SMP), whole milk powder (WMP), etc. The manufacturing plant of the company is situated at Pathardi, Ahmednagar in Maharashtra with a milk processing capacity of ~2 lacs liters per day (LPD).

The Company is the wholly owned subsidiary of Satara (Maharashtra) based Swaraj India Industries Ltd which is also into dairy business but operating at much larger capacity of 20.90 lac litres per day (LPD).

In July 2019, both SIIL and FNN were sold to Beed, Maharashtra based 'The Kute Group'. Mr. Suresh Kute and Mrs. Archana Kute are the current promoters and Directors for SIIL and FNN. 'Tirumalla Oil Refinery Pvt Ltd' (Flagship Company of the Kute group) holds 94.9% stake in SIIL, and SIIL continues to hold 100% stake in FNN.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters		FY18	FY19	FY20
Result Type	Units	Audited	Audited	Provisional
Total Operating Income	Rs.Crs.	209.16	224.40	257.48
OPBDIT	Rs.Crs.	6.84	5.34	6.03
PAT	Rs.Crs.	1.30	1.46	2.42
Adjusted TNW	Rs.Crs.	14.56	22.05	24.47
Adjusted D/E	Times	0.90	0.50	0.40
ISCR	Times	4.10	3.53	5.70
Current Ratio	Times	1.30	1.61	1.71

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED- NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

SR No.	Name of Facility	Current Rating			Rating History														
		19 Aug 2020			18 Jan 2020			2019			8 Feb 2018			2017			02 Jun 2016		
		Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating	Tenure	Amt Rs Crs	Rating
1.	Bank Loan	Fund Based Long Term	10	BWR BBB-Stable (Upgraded)	Fund Based Long Term	17.70	BWR BB+ Stable Issuer Not Cooperating *	NA	NA	NA	Fund Based Long Term	17.70	BWR BBB-Stable	NA	NA	NA	Fund Based Long Term	24.52	BWR BBB-Stable

The rating was migrated to rating not reviewed category on 6th September 2019.

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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Fresh N Natural Dairy Farms Pvt Ltd
ANNEXURE I - Details of Bank Facilities rated by BWR

Bank Name	Facility	Previous Amt (Rs.Crs.)	Present Amt (Rs.Crs.)
State Bank of India	Fund Based - Cash Credit	10	10
	Fund Based - Term Loan#	7.70	-
Total		17.70	10

Total Rupees Ten Crores Only

The Company has fully repaid its Term Loan in October 2019

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