

Rating Rationale

Gopaljee Dairy Foods Pvt. Ltd

11 Sep 2019

Brickwork Ratings reaffirms the long term rating (with change in outlook to Negative) and short term rating for the Bank Loan Facilities of ₹ 245.40 Crores of Gopaljee Dairy Foods Pvt. Ltd ('GDFPL' or 'The Company').

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (March 2019)	Present
Fund based Cash Credit/WHR Term Loans Un-tied limits	144.00 92.98 -	147.25 78.65 15.00	Long Term	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Negative (Reaffirmed)
Non Fund Based Import LC	4.50	4.50	Short Term	BWR A2+ (Pronounced as BWR A Two Plus)	BWR A2+ (Pronounced as BWR A Two Plus) (Reaffirmed)
Total	241.48	245.40	INR Two Hundred & Forty Five Crores & Forty Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
 Complete details of Bank facilities is provided in Annexure-I

Rating Action/ Outlook: Long term rating Reaffirmed at BWR BBB+ with change in outlook from 'Stable' to 'Negative' and Short term rating reaffirmed at BWR A2+

Rating Outlook: Negative

BWR revises its outlook from 'Stable' to 'Negative' owing to increase in working capital requirements due to accumulation of its inventory, mainly value added products like Butter and Ghee, deterioration in Cash Conversion Cycle in FY19, sharp decline in NPM from 1.04% in FY18 to 0.82% in FY19, with a resultant decline in ISCR from 3.25x to 2.84x, coupled with overall slowdown in this sector with intense competition from other established players. The rating outlook may be revised to 'Stable' in case the company is able to liquidate its value added products amidst competition and market slowdown, improve its sales realisation & profitability margins and timely disbursement of its un-tied limits for additional liquidity support over the medium term.

Key Rating Drivers

BWR reaffirms its outstanding ratings considering strength from experienced promoters along with Company's established track record in dairy business for over 2 decades, consistent improvement in its top line growth on account of new geographies added, coupled with an increase in market penetration in Delhi NCR by opening 400 retail outlets, strong milk procurement systems along with established distribution network and brand visibility in North India, significant increase in Company's operating retail

outlets in FY20 and plans to increase these further in the next three financial years besides satisfactory feedback from its lenders. BWR also takes note of the continuous ongoing capex programs to improve its operational efficiency over the medium term.

The ratings are, however, constrained by leverage capital structure due to increasing debt levels against moderate tangible net worth and low profitability margins of the Company despite efforts to establish its owned retail outlets at Delhi NCR region. BWR also notes that the cash flow from operations declined by around Rs. 20 Cr as on 31 March 2019 due to significant increase in inventory levels and thus resulted increase in working capital limit utilization levels.

Credit Strengths:

Experienced promoters: Mr. R.S. Dixit, Chairman-cum-M.D. of the Company, started this business in the year 2000 as a first-generation entrepreneur from the ground level, from procuring raw milk to processing the final product and establishing relationships with farmers. The entire operations of the Company continues to be under his sole executive control. Other directors are Mrs. Sunita Dixit and Mr. Nikhil Mishra who oversee the milk procurement segment.

Strong Milk Procurement Network: The Company has established strong milk procurement network which is operated in Uttar Pradesh through 32 milk chilling centers (MCC) and more than 4900 village societies. During peak milking season, the Company collects more than 12 lakh liters per day of milk on an average. The Company has also implemented the SAP HANA, relational database management system software, at all its manufacturing plants to coordinate operations from MCCs to the selling depots.

Established market position: The Company has established a leading market position in north India. Presently, the Company is selling milk and other value-added products through more than 1200 distributors and other channels inclusive of institutional/online portals and also through company owned retail outlets. The Company's owned retail outlet increased from 240 to 412 and are further expected to increase significantly within the next two financial years. The outlook now opened is converted into ABA entrepreneur model which helped the Company to reduce its excess overhead expenses and improve sales and profitability margins.

Consistent improvement in its revenue profile: Turnover increased from Rs. 1105.60 Cr in FY17 to Rs. 1374.37 Crs in FY18 and further to Rs. 1443.28 Cr in FY19 due to expansion into other geographies and more penetration towards Delhi NCR market. All of its units (both owned & leased) are running at satisfactory levels as capacity utilization of its units improved during FY19.

GDFPL also expanded its retail footprint in FY19 by doubling its retail outlets from ~200 to 400. Recently, GDFPL also changed its model from Company-owned (COCO) to Business Associate model., which is likely to add up to its revenue and profitability for FY20.

Diversified product portfolio with healthy geographical reach: The Company's operating revenues improved significantly owing to diversification in its revenue profile by adding value-added products such as dahi, chhach, lassi, paneer, butter, ghee, flavored milk etc. during FY18. It has a strong presence in Delhi NCR region and Uttar Pradesh, besides adding other states in north India such as Punjab, Haryana, Himachal Pradesh and Uttarakhand in its marketing outreach.

Credit Risks:

Low profitability margins: Despite improvement in share of value added products in its total revenue, profitability margins declined in FY19 to 0.82% owing to additional interest cost burden, increase in operational expenditure coupled with limited ability to pass on the additional expenses immediately to customers owing to high competition in the industry.

High gearing ratio: Since the Company is at expansion stage and striving to tap new markets, requirement for long term funding is high. The total debt of the Company stood at Rs. 196.07 Cr against tangible net worth of Rs. 71.07 Cr in FY19. Going forward, the ability of the Company to bring down its overall gearing profile by infusing additional funds or improving its profitability margins with absence of any debt-funded capex will remain a key rating sensitivity.

Increasing working capital limit utilization: Cash flow from operations declined by around Rs. 20 Cr as on 31 March 2019 owing to significant increase in inventory levels which resulted in an increase in working capital limit utilization levels. Inventory went up significantly as management decided to hold on to the stock of butter & ghee since Dec 2018 which it expects to liquidate over the medium term.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below.

Rating Sensitivities:

Positive: BWR may revise the ratings upward, if the Company is able to improve its gearing ratio to below 2x, net profit margins to at least 2% and ISCR to more than 4x in FY20, with other metrics also favoring an upgrade.

Negative: BWR may revise the ratings downwards, if the Company's ISCR falls to below 2.5x, gearing deteriorates to more than 3x and PAT margins remain below 1% in FY20.

Liquidity position of the Company

Average utilization of its CC/SLC limits and WHR limits stood at around 84.96% and 55.87%, respectively over the past 15 months. These limits are primarily utilized at above 90% level during the peak season (March-Aug 2019) and subsequently get reduced to below 70% level in other months. Since Dec2018, inventory levels went up significantly as market demand for Butter and Ghee declined and thus the management took a strategic decision to hold on to the stocks till the market stabilised. This resulted in increase in CC utilization over the past 6-7 months. As per the lead bank's feedback, the un-tied limits of Rs. 15 Cr are also expected to be released within the next few months, which will ease its liquidity position.

GDFPL has generated net cash accruals of around Rs 32.42 Crs in FY19 and expects to generate net cash accruals of around Rs. 47.63 Crs, which are largely adequate to cover repayment obligations of around Rs 17-18 Crore in FY20. Working capital limits availed by the Company remains close to 10% of its total turnover reported during FY19. Receivables level remains low as majority of its turnover is on cash sales basis. The company's unencumbered cash and cash equivalents stood at Rs. 5.45 Cr in FY19 as against Rs. 6.30 Cr in FY18, which also provides additional liquidity support. Financial Leverage (Net Debt/EBITDA) is moderate at 2.83x (P.Y. 3.43x) in FY19.

Key Financial Indicators:

Particulars	FY18 (A)	FY19 (A)
Total Operating Income (Rs. Crs)	1374.37	1443.28
EBITDA (Rs. Crs)	52.03	61.18
PAT (Rs. Crs)	14.25	11.79
Total Tangible Networth (Rs. Crs)	59.24	71.07
Gearing (Total Debt/TNW) Ratio (times)	2.84	2.76
ISCR (times)	3.28	2.84

About the Company

Gopaljee Dairy Foods Pvt. Ltd. (GDFPL) was incorporated in 2003, and is based in Delhi NCR. GDFPL is engaged in the manufacturing of processed milk and milk products like ghee, skimmed milk powder, dahi, lassi/chhachh, paneer, flavored milk etc. The company sells products under the brand name of “Gopaljee” and “Ananda” It’s processing units are located in: 1) Siyana unit, UP, having installed capacity of 3.22 LLPD (lakh litres per day), 2) Pilukhwa unit (UP) having installed capacity of 4.80 LLPD, 3) Kanpur unit (leased) having capacity of 1.12 LLPD and 4) Moradabad unit (third-party manufacturer) having capacity of 3.00 LLPD.

GDFPL uses 32 Milk Chilling Centers, (of which 8 are owned and remaining leased) and 4900 Village Level Centers (VLC) as on date. B2C segment contributes more than 90% of its total turnover generated during FY19.

Status of non-cooperation with previous CRA (if applicable)- N.A.

Any other information: Nil

Rating History for the last three years

Sl. No.	Facility	Current Rating (2019)			Rating History		
		Type	Amt (Rs Cr)	Rating	18 Mar 2019	08 May 2018	03 April 2017
1	Fund Based Cash Credit/WHR Term Loans Un-tied Limits	Long Term	147.25 78.65 15.00	BWR BBB+ (Pronounced as BWR Triple B Plus (Outlook Negative) (Reaffirmed)	BWR BBB+ (Pronounced as BWR Triple B Plus) (Stable) (Reaffirmed)	BWR BBB+ (Pronounced as BWR Triple B Plus) (Stable) (Reaffirmed)	BWR BBB+ (Pronounced as BWR Triple B Plus) (Stable) (Upgrade)
2	Non Fund Based Import LC	Short Term	4.50	BWR A2+ (Pronounced as BWR A Two Plus) (Reaffirmed)	BWR A2+ (Pronounced as BWR A Two Plus) (Assigned)	-	-
Total			245.40	Rs. Two Hundred & Forty Five Crores & Forty Lakhs Only			

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)
- [Short Term Debt](#)

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Note on complexity levels of the rated instrument:

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