Rating Rationale

Gopaljee Dairy Foods Pvt. Ltd.

18 Mar 2019

Brickwork Ratings reaffirms the long term rating and assigns short term rating for the Bank Loan Facilities of ₹ 241.48 Crores of Gopaljee Dairy Foods Pvt. Ltd.

Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (May 2018)	Present
Fund based Cash Credit/WHR Term Loans	99.00 66.05	144.00 92.98	Long Term	**BWR BBB+** (Pronounced as BWR Triple B Plus) **Outlook: Stable**	**BWR BBB+** (Pronounced as BWR Triple B Plus) **Outlook: Stable** (Reaffirmed)
Non Fund Based Import LC	-	4.50	Short Term	N.A.	**BWR A2+** (Pronounced as BWR A Two Plus)
Total	**165.05**	**241.48**	**Rs. Two Hundred & Forty One Crores & Forty Eight 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

Ratings: Long term rating Reaffirmed at BWR BBB+ (Stable Outlook) and Short term rating assigned at BWR A2+

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Company's audited financial results up to FY18, projected financials up to FY20, publicly available information and clarifications provided by the Company.

The ratings, continues to draw 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 coupled with increase in sale of high value added products, strong milk procurement system along with established distribution network and brand visibility in North India, significant increase in Company's owned operating outlets in FY19 and plans to increase these further in the next three financial years besides satisfactory feedback from its lenders. BWR also take note of the continuous ongoing capex programs to improve its operational efficiency and increase profitability over the medium term.

The ratings are, however, constrained by leverage capital structure due to increasing debt levels against moderate tangible net worth, low profitability margins of the Company despite increase in sale of value added products and establishment of its owned operating retail outlets in large numbers. The Company is susceptible to changes in government regulations, intense competition and other external factors. BWR also takes note of the Company's low current ratio over the past three years which may impacts its liquidity position over the medium term.

Liquidity position of the Company

The Company reported adequate cash accrual levels despite increasing overall debt position. Cash accrual is estimated at Rs. 37.46 Cr against yearly maturing debt of around Rs. 15.68 Cr. Working capital cycle of the Company remains moderate due to low receivables position. Receivables level remains low as majority of its revenue is generated through cash sales basis. However, the Company's current ratio remains low due to significant increase in trade payables and high short term borrowings vis-a-vis current assets available. This may impact its liquidity position over the medium term. Company's cash and cash equivalents stood at Rs. 6.30 Cr for additional liquidity support. Financial Leverage (Net Debt/EBITDA) is moderate at 3.43x in FY18.

Description of Key Rating Drivers

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 33 milk chilling centers (MCC) and more than 4950 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 in FY18 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 900 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.

Consistent improvement in its revenue profile: The Company's turnover levels have increased consistently over the past three years owing to addition of certain value added products and expansion into various other geographies of north India during FY18 and FY19. All its plants (both owned and leased) are running at a satisfactory levels with utilization level of 85% (P.Y. 77%) during FY18. The Company has achieved a revenue of Rs. 1002.32 Cr in 9MFY19 and expects to achieve its FY19 projected figures.

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 FY17 & FY18. It has 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:

High gearing ratio: Since the Company is at a growing stage and striving to tap new markets, requirement for long term funding is high. The total debt of the Company stood at Rs. 168.34 Cr against the tangible net worth of Rs. 59.24 Cr in FY18. However, gearing ratio is expected to improve post March 2019 as management has planned to infuse additional capital for its financial flexibility. Going forward, ability of the Company to bring down its overall gearing profile by infusing additional funds or improve its profitability levels with absence of any debt-funded capex will remain the key rating sensitivity.

Low profitability margins: Despite improvement in share of value added products in its total revenue, profitability margins have not improved significantly in FY18. Net profit margin of the Company stood at 1.04% in FY18. Profitability levels remain low on account of increase in operational expenditure coupled with limited ability of the Company to pass on the high expenses immediately to customers owing to high competitive intensity.

Susceptibility to changes in government regulations, intense competition and other external factors: Raw material prices are susceptible to changes in government policies and uncertain environmental conditions. The Company also faces stiff competition from other players in North India, who are well established with their reputed brand names.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: ***Stable***

BWR believes **Gopaljee Dairy Foods Private Limited's** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the company able to maintain its revenue growth with significant improvement in its profitability margins and capital structure over the medium term. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

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 sell 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 33 Milk Chilling Centers, (of which 8 are owned and remaining leased) and 4972 Village Level Centers (VLC) as on date. B2C segment contributes more than 90% of its total turnover generated during FY18.

Company Financial Performance

The Company has reported a total operating income of Rs. 1374.37 Cr in FY18 as against Rs. 1105.60 Cr in FY17. It has achieved a turnover of Rs. 1002.32 Crs for 9MFY18 and estimated to achieve its estimated FY19 revenue figures. It has reported a net profit of Rs. 14.25 Cr in FY18 as against Rs. 7.44 Cr in FY17. As on 31st March 2018, it has reported a tangible net worth of Rs. 59.24 Cr against Rs. 53.77 Cr as on 31st March 2017.

Key financial indicators are summarized below.

Particulars	**FY17 (A)**	**FY18 (A)**
Total Operating Income (Rs. Crs)	1105.60	1374.37
EBITDA (Rs. Crs)	43.44	52.03
PAT (Rs. Crs)	7.44	14.25
Total Tangible Networth (Rs. Crs)	53.77	59.24
Gearing (Total Debt/TNW) Ratio (times)	3.08	2.84
ISCR (times)	3.67	3.28

Rating History for the last three years

Sl. No.	Facility	Current Rating (2019)			Rating History		
		Type	Amt (Rs Cr)	Rating	08 May 2018	03 April 2017	29 July 2016
1	**Fund Based** Cash Credit/WHR	Long Term	144.00	BWR BBB+ (BWR Triple B Plus (Stable) (Reaffirmed)	BWR BBB+ (BWR Triple B Plus) (Stable) (Reaffirmed)	BWR BBB+ (BWR Triple B Plus) (Stable) (Upgrade)	BWR BBB (BWR Triple B) (Stable)
2	Term Loans		92.98				
3	**Non Fund Based** Import LC	Short Term	4.50	BWR A2+ (BWR A Two Plus) (Assigned)	-	-	-
Total			**241.48**	**Rs. Two Hundred & Forty One Crores & Forty Eight Lakhs Only**			

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

Any other information: Nil

Annexure I - Instrument/Bank Facility Details

ISIN	Instrument/Facility	Date of Sanction/Renewal	Coupon Rate	Maturity Date	Amt. in Rs. Cr	Current Rating & Outlook
-	**Fund Based** Cash Credit/WHR	-	-	-	69.00	BWR BBB + (Stable)
-	Term Loan I	16 Aug 2018	-	-	13.35	BWR BBB + (Stable)
-	Term Loan II	16 Aug 2018	-	-	18.68	BWR BBB + (Stable)
-	Term Loan III	28 Nov 2017	-	-	14.19	BWR BBB + (Stable)
-	Term Loan IV	28 Nov 2017	-	-	20.00*	BWR BBB + (Stable)
-	Term Loan V	06 Feb 2017	-	-	5.76	BWR BBB + (Stable)
-	Term Loan VI	30 Aug 2018	-	-	21.00*	BWR BBB + (Stable)
-	**Non Fund Based** Import LC	28 Nov 2017	-	-	4.50	BWR A2+

**The said term loans were partially disbursed as on 28.02.2019*

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.