Rating Rationale

Gopaljee Dairy Foods Private Limited

8 May 2018

Brickwork Ratings reaffirms the rating for the bank loan facilities aggregating Rs. 165.05 Crores of Gopaljee Dairy Foods Private Limited (GDFPL or 'the Company').

Particulars

Facility Rated	Amount (Rs. Crs)		Tenure	Rating[1]	
	Previous	Present		Previous	Present
Fund Based Cash Credit /WHR	70.00	99.00	**Long Term**	**BWR BBB+** (Pronounced as BWR Triple B Plus) **(Outlook Stable)**	**BWR BBB+** (Pronounced as BWR Triple B Plus) **(Outlook Stable)** (Reaffirmed)
Proposed CC/WHR*	20.00	-			
Term Loans	39.44	66.05			
Proposed Term Loans*	51.80	-			
Total	**181.24**	**Rs. 165.05 Crores (INR One Hundred and Sixty Five Crores and Five Lakhs Only.)**			

[1]Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
**The proposed limits were sanctioned and included in its existing sanctioned limits*

Long Term Rating reaffirmed at BWR BBB+ (Stable).

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Company's audited financial results upto FY17, un-audited financials for 9MFY18, projected financials upto FY19, publicly available information and clarifications provided by the Company.

The rating continues to draw strength from the experienced promoters with established track record in this industry, established presence across the value chain from procurement of milk to retail market reach through its established brand name of "Ananda", increase in its geographical presence covering entire North India through its established distributors network, continuous increase in its scale of operations with incremental investments made in its fixed assets year-on-year, launch of its new value added products along with opening up its owned retail outlets, which resulted increase in its turnover and EBITDA levels over past two years; moderate coverage ratios and satisfactory feedback from the lenders.

However, the rating continues to be constrained by low profitability margins of the Company during FY17, leveraged capital structure owing to increasing debt levels year-on-year for its continuous capex programme and increasing market reach besides susceptibility to changes in government regulations, intense competition and other external factors.

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 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 oversees the milk procurement segment.

Strong Milk Procurement Network: The Company has established strong milk procurement network which is operated in Uttar Pradesh through their 28 milk chilling centers (MCC) and more than 4900 village societies. During milking season, the Company collects more than 12 lakh liters per day of milk on an average. To ensure efficiency in its operations, the Company has recently implemented the SAP HANA relational database management system software, at all its manufacturing plants to coordinate operations from MCC's 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 portal and also through company owned retail outlets. It has also planned to open 1500 additional retail outlets in the NCR over the next 2-3 years. Presently, it is running 240 owned retail outlets which is likely to increase by another 400 outlets in the current financial year.

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 Weaknesses

Lower profitability margins: Despite increase in its turnover and EBITDA levels significantly, net profitability margins remained below 1% level over past three years owing to impact of debt-funded capex and increased selling and distribution expenses. However, benefits from the said capex is likely to be derived over the medium term. BWR also takes note of the management's strategy for shifting towards its own retail outlets/chains which may increase initial operational costs but may save on distributor discounts, thereby improving profitability margins over the medium term besides also ensuring market visibility and adding to brand value.

Leveraged capital structure: The financial risk profile is highly leveraged, reflected in gearing (Total debt/TNW ratio) of 3.08 times as on 31st March 2017, mainly on account of continued debt-funded capex. However, gearing is expected to improve with accretion to its reserves and surplus and management plans to infuse additional capital during the current financial year.

Susceptibility to changes in government regulations, intense competition and other external factors: The raw material prices are susceptible to change 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

BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria (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 turnover 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, based in Delhi. 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". GDFPL owns 28 milk chilling centers (MCC) and 4972 village level centers (VLC) as on date. Its processing units are located in Siyana, Uttar Pradesh, having total installed capacity to process 3.22 LLPD of milk and Pilukhwa unit, Uttar Pradesh, with a total installed capacity of 4.80 LLPD of milk (including all value added products). The Company also has one leased unit at Kanpur for processing of milk, chhach and dahi.

Company Financial Performance

The Company has reported a total operating income of Rs. 1105.60 Crs in FY17 as against Rs. 864.49 Crs in FY16. It has achieved a turnover of Rs. 990.00 Crs for 9MFY18 and estimated to close around Rs. 1344 Crs turnover for FY18. It has reported a net profit of Rs. 7.44 Crs in FY17 as against Rs. 6.25 Crs in FY16. As on 31st March 2017, it has reported a tangible net worth of Rs. 53.77 Crs against Rs. 34.64 Crs as on 31st March 2016.

Key financial indicators are summarized below.

Particulars	FY16 (A)	FY17 (A)
Total Operating Income (Rs. Crs)	864.49	1105.60
EBITDA (Rs. Crs)	25.74	43.44
PAT (Rs. Crs)	6.25	7.44
Total Tangible Networth (Rs. Crs)	34.64	53.77
Gearing (Total Debt/TNW) Ratio (times)	3.26	3.08
ISCR (times)	3.61	3.67

Rating History for the last three years (including withdrawn/suspended ratings)

<table>
<tr><th>Sl. No.</th><th>Facility</th><th colspan="3">Current Rating (2018)</th><th colspan="3">Rating History</th></tr>
<tr><th></th><th></th><th>Type</th><th>Amount (Rs Crs)</th><th>Rating</th><th>03 April 2017</th><th>29 July 2016</th><th>20 Nov 2015</th></tr>
<tr><td>1</td><td>Fund Based
Cash Credit/WHR</td><td rowspan="4">Long Term</td><td>99.00</td><td rowspan="4">BWR BBB+ (Stable) (Reaffirmed)</td><td rowspan="4">BWR BBB+ (Stable) (Upgrade)</td><td rowspan="4">BWR BBB (Stable) (Reaffirmed)</td><td rowspan="4">BWR BBB (Stable)</td></tr>
<tr><td>2</td><td>Proposed CC/WHR*</td><td>-</td></tr>
<tr><td>2</td><td>Term Loans</td><td>66.05</td></tr>
<tr><td>3</td><td>Proposed Term loan*</td><td>-</td></tr>
<tr><td colspan="3">Total</td><td>165.05</td><td colspan="4">INR One Hundred and Sixty Five Crores and Five Lakhs Only.</td></tr>
</table>

**The proposed limits were sanctioned and included in its existing sanctioned limits*

Hyperlink/Reference to applicable Criteria

- [General Criteria]
- [Approach to Financial Ratios]
- [Manufacturing Companies]

For any other criteria obtain hyperlinks from website

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For print and digital media

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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

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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