



Rating Rationale

S N Dairy Foods Private Limited

26 Nov 2018

Brickwork Ratings revises the ratings to BWR B+ for the bank loan facilities aggregating Rs. 7.99 Crs of S N Dairy Foods Private Limited.

Particulars:

Facilities Availed	Previous Rated (Rs.Crs)	Amount to be rated (Rs.Crs)	Tenure	Previous Rating	Rating Proposed
Fund Based					
Cash Credit	4.00	4.00	Long Term	BWR BB- (Pronounced BWR Double B Minus) Outlook : Stable	BWR B+ (Pronounced BWR Single B plus) Outlook : Negative Downgrade
Term Loan	4.00	3.99			
Amount to be rated	8.00	7.99	Rs.Seven Crores and Ninety Nine lakhs Only		

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

Long term ratings downgraded to BWR B+ (Outlook Negative) for the bank loan facilities of S N Dairy Foods Private Limited (‘SNDFPL’ or ‘the company’)

Rationale/Description of Key Rating Drivers/Rating sensitivities: BWR has principally relied upon audited financial results of SNDFPL up to FY18, publicly available information and information provided by the promoters.

The rating draws comfort from the extensive experience of the promoters in the dairy industry, established procurement base supplemented by network of bulk coolers and chilling centres and diversified product offerings.

The rating is, however, constrained on account of negative working capital, continued decline in Tangible Net Worth and cash accruals of the company, high level of competition, high gearing and geographical concentration risks which has resulted in low profitability margins.

Going forward scaling up of business, improving capital structure and profit margins would be the key rating sensitivities.

Key Rating Weaknesses

- **Decline in Total Operating Income** – The top line of the company has seen a continuous decline since FY15 and the same stood at Rs.22.98 Crs in FY 18. The company has registered a negative CAGR of 24.10% since FY 16. The decline in FY18 is due to less quantity of raw milk being processed in FY18.
- **High Gearing and depleting Cash Accruals:** The company has a high gearing marked by TOL/TNW ratio of 6.52x as on 31 March 2018, owing to a constant decline in tangible net worth of the company. The cash accruals has seen a downfall trend and the same stood at Rs1.55 Crs in FY18 vis-a-vis Rs.1.80 Crs in FY 17 and Rs. 2.86 Crs in FY 16. Further, the company is facing liquidity crises with a negative net working capital of Rs.1.38 Crs in FY 17 which has further deteriorated to Rs.5.70 Crs in FY 18 and consequent decline in current ratio to 0.45x in FY18.
- **Limited brand presence and high geographical concentration** – At retail level, the company has limited brand presence and high geographical concentration since majority of the retail sales come from specific regions of Uttar Pradesh. Though the company's intention to increase the brand presence by penetrating the regional rural areas is likely to drive the revenue growth in a long term, the company's ability to compete with the local unorganized player remains to be seen and will be a key monitorable.
- **Ability to sustain the profitability remains critical, given the government regulated industry, dynamic raw milk price movements and supply demand scenario-** The profitability of the company is largely affected by the raw material price fluctuations which in turn affects the sales realisations. Any adverse movement in the price of raw materials could have an adverse impact on its margins as witnessed during FY18, considering the limited ability to pass on the price hike owing to high competitive nature of the industry and government regulations.

Key Rating Strengths

- **Experience of the promoters :**The key director of the company Mr. Vinod Agarwal has 30 years experience skill in managing the dairy industry also in marketing & export of milk products. Further he is ably assisted by a team of experienced personnels.
- **Established procurement base supplemented by network of bulk coolers and chilling centres** - The company sources its requirement of about 2.5 lacs liters total milk from its owned four milk chilling centers (MCC), and the remaining from other sources to ensure availability of milk for its processing plant with capacity of about 6 lac litres per day (LPD).

Analytical Approach: BWR has taken the financials of the company on a standalone basis into consideration while determining the credit rating of the entity. A reference may be made to hyperlinks below for the applicable criteria.

Rating Outlook: Negative

BWR believes the **S N Dairy Foods Private Limited's** business risk profile is unstable and the revenues has gone down, profit margins show lower than expected figures, continuous decline in Tangible Net Worth and cash accruals. The rating outlook may be revised to 'Stable' in case the revenues and profit show sustained improvement.

About the Company

S N Dairy Foods Private Limited (SNDFPL) was incorporated in 2013 by Mr. Ravikant Kumar Agrawal, Mr. Vinod Kumar Agarwal, Mr. Pradeep Kumar Agarwal and Mr. Sushil Kumar Agarwal. The company is engaged in the business of manufacturing of ghee, butter, skimmed milk powder (SMP), packaged milk, curd and yogurt etc under the aegis of S.N. Milk Products Private Limited which is also involved in the same lines of business. The company has been marketing dairy products under its brand “**MADHAV**”. The company is based out of Sasni Distt- Hathras, UP.

The group company, S.N. Milk Products Private Limited (SNMPPL), involved in the same line of business, was rated BWR BBB- (Stable) for the bank loan facilities aggregating Rs. 55.99Crs in Oct 2018 by us.

Company's Financial Performance

Key Financials			
Crores	Units	31/Mar/2017	31/Mar/2018
Result Type		Audited	Audited
Total Operating Income	Rs. Crs	36.95	22.98
OPBDIT	Rs. Crs	3.19	2.49
PAT	Rs. Crs	-0.27	0.05
Tangible Net Worth	Rs. Crs	2.19	2.24
TOL/TNW	Times	9.57	6.52
Current Ratio	Times	0.87	0.45

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

Facilities Availed	Rating Assigned (FY19)			Rating History			
	Amount to be Rated (In Crs)	Tenure	Rating Assigned	FY18	FY17	FY16	FY15
CC	4.00	Long Term	BWR B+ Outlook: Negative	BWR BB- Outlook: Stable	NA	NA	NA
Term Loan	3.99						
Total amount to be rated	7.99	Rs.Seven Crores and Ninety Nine Lakhs Only					

Status of non-cooperation with previous CRA (if applicable): NA

Any other information: Not Applicable

Hyperlink/Reference to Applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Rating Criteria - Manufacturing Sector](#)

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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.

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