

## RATING RATIONALE

20 July 2020

Swaraj India Industries Ltd

**Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of Rs. 295.25 Crs of Swaraj India Industries Limited (SIIL or the ‘Company’)**

### Particulars:

Facility***	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Ap, 2019)	Present
<b>Fund based</b>	303.78	295.25	<b>Long Term</b>	<b>BWR A-Stable</b>	<b>BWR A-Stable (Reaffirmed)</b>
<b>Non Fund Based</b>	(240.00)	(240.00)	<b>Short Term</b>	<b>BWR A2+</b>	<b>BWR A2+ (Reaffirmed)</b>
<b>Total</b>	<b>303.78</b>	<b>295.25</b>	<b>Rupees Two Hundred Ninety Five Crores and Twenty Five Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

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

### RATING ACTION / OUTLOOK

The ratings take into account the own established presence of the Company in the Maharashtra dairy industry. SIIL was acquired by The Kute Group’s flagship Company Tirumalla Oil Refinery Pvt Ltd in July 2019, and this adds strength to the Company.

The rating reaffirmation factors in stable operational performance in FY19, and FY20 (provisional) with the increased contribution from sale of Value Added Products (VAP) to the institutional and retail segment resulting in increased operating profit and margins in FY20. The rating also factors in 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 was concentrated towards sale of liquid milk and SMP to the large corporates in dairy and hospitality 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 SIIL will benefit from current management's extensive experience in Indian FMCG market, and SIIL’s own and the Kute Group’s established wide dealer distributors network.



## KEY RATING DRIVERS

**Established presence in the dairy industry:** SIIL has been in the dairy business since 1999 and has an established presence in the dairy industry. The Company markets its products, such as ghee, creamer (skimmed milk powder and whole milk powder), and butter etc under its own brand- Swaraj. The Company primarily caters to the Western and North Indian regions. The distribution network is spread across more than 13 states in India, 300+ distributors, 20+ super stockists, 37 retail outlets, 35+ MT outlets. Furthermore, being a part of the Kute Group, SIIL also benefits from the promoters' experience of reaching out to customers over a larger area.

The Company procures milk from farmers in major districts like Ahmednagar, Pune, Beed, Satara, Solapur, and Sangli in Maharashtra which account for > 60% of the cow milk production of Maharashtra. SIIL's milk processing plant is located in the rich cow milk producing belt of Phaltan, Satara in Maharashtra which is also well connected to the rural and urban markets in Maharashtra. Milk processing capacity is 20.90 Lakh Litres per day, making it one of the largest units in India.

**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 SIIL is establishing the separate Brand called 'Tirumalla Dairy' for the B2C segment (as the Tirumalla is renowned brand of The Kute Group is FMCG market) and for the B2B segment the brand name of Swaraj will continue. The strengthening of the B2C (retail) segment is expected to result in improved operating margins, and increased geographical presence.

**Stable operational performance:** In FY19 the revenue growth was 35.28% backed by increased overall geographical presence and increased sale of liquid milk to institutional players/dairy corporations. The Company has now shifted its focus on expanding margins and achieving higher profitability with higher contribution of value -added products, with this operating profit in FY20 (provisional) increased to Rs.79.02 Crs as against Rs. 52.52 Crs in FY19 and Rs. 48.87 Crs in FY18. During Q1FY21 the Company reported revenue of Rs.208 Crs.

**Diversified product profile:** SIIL manufactures a range of dairy products such as skimmed milk powder (SMP), whole milk powder (WMP), butter, clarified butter, pouch milk, bulk milk, cheese, cottage cheese, flavoured milk, etc.

**Strong marketing and distribution network:** The current management is focusing on strengthening SIIL'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 SIIL'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 might get 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. This is reflected by a strong performance in Q1FY21, with a reported turnover in excess of Rs. 200 Crs.

**Geographical concentration in revenue:** The Company geographical concentration in revenue as around 60% of revenue is generated from Maharashtra (primarily from Western Maharashtra).

**High Competition:** The industry being highly competitive, SIIL has competition from other established players and other milk processing units in the market. However, its size and outreach keeps the Company ahead.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA:**

BWR has principally relied upon the audited financials of SIIL from FY17 to FY19, provisional FY20 financials, publicly available information and information/clarification provided by the management. Even though it is now part of the Kute group, in view of the fact that integration is still taking place, BWR has relied on the standalone results of SIIL,

#### **RATING SENSITIVITIES**

**Positive:** If the company is able to demonstrate better management of its working capital and if it is able to increase its sale of VAPs, resulting in sustaining/improving its operating margins.

**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**

SIIL has an adequate liquidity. In FY20, the current ratio of the Company stood at 1.41x (PY: 1.36x). As on Mar 31, 2019 cash and bank balance stood at Rs.19.74 Crs. The average cc utilization for 6 months ending June-20 stood at 90%. The working capital intensity has increased on account of more credit to customers to strengthen the B2C segment. SIIL is projecting cash accrual of ~Rs 56.36 Crs and has Rs. 20.35 Crs repayments due in FY21 against it.

#### **COMPANY PROFILE**

Incorporated on 20 Feb 1996, Swaraj India Industries Ltd ('SIIL' or 'the Company') founded by Mr. Ranjeeth Sinh Naik Nimbalkar. SIIL 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), flavoured milk, shrikhand, aamrakhand etc., that is, across the value chain of milk products. The manufacturing plant of the company is situated in Phaltan (Satara, Maharashtra) with a milk processing capacity of ~20.90 lacs liters per day (LLPD).

The Company has a wholly owned subsidiary named 'Fresh N Natural Dairy Farms Pvt Ltd' (FNN) which is engaged in the same line of activity as SIIL. FNN's plant is located at Ahmednagar, Maharashtra, and has a milk processing capacity of 2 LLPD.

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	Units	FY18	FY19	FY20
		Audited	Audited	Provisional
Total Operating Income	Rs.Crs.	575.07	784.13	893.51
OPBDIT	Rs.Crs.	48.87	52.52	79.02
PAT	Rs.Crs.	20.42	26.24	33.89
Adjusted TNW	Rs.Crs.	117.90	142.89	172.77
Adjusted D/E	Times	1.40	1.65	1.53
ISCR	Times	2.68	2.31	3.11
Current Ratio	Times	1.47	1.36	1.41

#### KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED- NA

#### NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY

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

SR No.	Name of Facility	Current Rating			Rating History											
		8 July 2020			30 Jan 2019			2018			2017			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
1.	Bank Loan	Fund Based Long Term	295.25	BWR A-Stable (Reaffirmed)	Fund Based Long Term	303.78	BWR A-Stable	NA			NA			NA		
		Non Fund Based	(240)	BWR A2+ (Reaffirmed)	Non Fund Based	(240)	BWR A2+	NA			NA			NA		

The rating was migrated to rating not reviewed category on 7th April 2020.

## COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

### Hyperlink/Reference to applicable Criteria

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### Swaraj India Industries Ltd ANNEXURE I - Details of Bank Facilities rated by BWR

Bank Name	Facility	Previous Amt (Rs. Crs.)	Present Amt (Rs. Crs.)	Tenor
Bank of Baroda	Term Loan	63.78	55.25**	Loan Term
	Cash Credit	240.00	240	
	Sub Limit_PC/PCFC	(10.00)	-	Short Term
	Sub Limit_BD/BDLC	(100.00)	-	
	Sub Limit_Payable Bill Finance	(40.00)	(40.00)	
	Sub Limit_WCDL	(200.00)	(240.00)	
	Sub Limit_FCNR	(200.00)	-	
	Sub Limit_Letter of Credit (Inland/Import)	(20.00)	-	
	Sub Limit_Bank Guarantee	(20.00)	(20.00)	
<b>Total</b>		<b>303.78</b>	<b>295.25</b>	<b>Total Rupees Two Hundred Ninety Five Crores and Twenty Five Lakhs Only</b>

\*\*Outstanding amount of term loan as on 1st July 2020

**Total Rupees Two Hundred Ninety Five Crores and Twenty Five Lakhs Only**



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