



## RATING RATIONALE

20 Sept 2019

### Vaishno Devi Food Products Pvt. Ltd.

**Brickwork Ratings assign the ratings for the Bank Loan Facilities of ₹. 70.00 Crores of Vaishno Devi Food Products Pvt. Ltd. ('VDFPPL or the Company')**

#### Particulars:

Facility**	Amount (₹ Cr)	Tenure	Rating*
Fund based	70.00	Long Term	BWR BBB- Stable
<b>Total</b>	<b>70.00</b>	<b>INR Seventy Crores 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

BWR has essentially relied upon audited financial results of Vaishno Devi Food Products Pvt. Ltd. up to FY 18 & Provisional of FY19 & projection Upto FY21, publicly available information & clarification/information provided by the company.

The assigned ratings factors the experience of the Vaishno Devi Food Products Pvt. Ltd promoters in the dairy and milk products industry, established procurement network and growing scale of operations and the rating further takes a note of equity infusion of SIDBI Venture Capital Limited (SVCL) during FY18. These strengths are partially offset by the relatively modest size of operations of the company in relation to other large organized Dairy, highly competitive nature of the industry, large working capital requirement and susceptibility to changes in government regulations and low profitability, moderate capital structure and debt coverage indicators.



The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that Vaishno Devi Food Products Pvt. Ltd business risk profile will be maintained over the medium term. The outlook may be revised to Positive if the company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to Negative if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the ratings.

## KEY RATING DRIVERS

### Credit Strengths:

**Established track record of the company with experienced and professionally qualified management:** VDFPPL's promoters' have experience of 15 years, Mr. Sameer Kakani, has been engaged in the dairy industry for more than a decade with its strong relation with farmers network and local market helping the company to profitably tap into market opportunities.

**Established procurement network-**VDFPPL primary raw material is milk for which company procures from various milk collection and chilling centers in surrounding areas of the processing plant. It also procures milk from its sister concerns, Mangal Kwaliti Food Products (MKFP) which procures milk from farmers.

**Diversified product profile & established Clientele base in India-** VDFPPL has diversified product portfolio, comprising of product such as raw milk, skimmed milk, processed milk, skimmed milk powder, curd, butter, ghee etc.

**Increasing scale of operations-** The Total Operating Income (TOI) of company registered an Y-o-Y growth. The total operating income has increased during FY18, to the tune of about 21% due to expansion & by adding new products.

**Moderate financial risk profile-** Company has moderate net worth of Rs 38.83 crore as on March 31, 2018 supported by SIDBI Venture Capital Limited (SVCL) which has invested Rs.25 crore in VDFPPL through equity shares (Rs.15.00 crore) and Optionally Convertible Debentures (Rs.10.00 crore) through India Opportunities Fund ("IOF"), a scheme of SIDBI SME Venture Fund, Further, gearing is at 1.43 times as on March 2018.



### **Credit Risks:**

**Thin Profitability Margins:** Despite improvement in share of value added products in its total revenue, VDFPPL operating margins stood at 3.43% in FY18 as against 4.83% in FY17 which is on account of intense competition from other private dairies which limits the company bargaining power with suppliers and customers.

**Large working capital requirement-** The company's working capital cycle has shown elongation over FY16- FY18, mainly as a result of changing product portfolio and sales mix, wherein the company has to maintain higher inventory of value added products maintained for the retail markets working capital cycle deteriorated to 46 days during FY18 as compared to the previous year mainly as a result of higher average collection period of 30 days. Also, low credit extended by suppliers led to high bank limit utilisation. This trend should continue over the medium term.

**Susceptibility to changes in government regulations-** The revenue of company is largely affected by the raw material milk (price fluctuation). Further, the milk is sensitive to government policies and environmental conditions, which will continue to constrain the business.

**Competition from private dairies and co-operatives within various geographies-** The dairy business is highly fragmented and dominated by a few large players having a nationwide presence. The competition is intense due to the presence of large number of regional and local milk and milk product suppliers.

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

For arriving at its ratings, BWR has considered the standalone financials of Vaishno Devi Food Products Pvt. Ltd and has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).



## RATING SENSITIVITIES

Going forward the ability of the company to further improve its scale of operations, profitability margins, improve its overall credit profile and capital structure, while managing the working capital effectively are the key rating sensitivities.

**Positive:** An improvement in the scale of operations, improve its gearing ratio along with an improvement in the overall credit metrics, net profit margins will be positive for the ratings.

**Negative:** Deterioration in the scale of operations and if the Company's ISCR falls below 2x, gearing deteriorates to more than 3x and PAT margins remain below 1.50% in FY20 will be negative for the ratings.

## LIQUIDITY POSITION

The average working capital utilization level of the company stood at 95% for the period Mar-2019 to Aug-2019 in the last six months. Currently the company is enjoying additional Adhoc limit of Rs 5.00 Cr for 3 months has been permitted upto 22.09.2019. The current ratio of the company stood at 1.43 times in FY19 Provisional. Cash and Cash equivalent in FY19(Provisional) stood at Rs.2.91 Crs which includes balances with bank.

## COMPANY PROFILE

Vaishno Devi Food Products Private Limited (VDFPPL) was incorporated in the year 2003 by Mr. Navneet Kakani. The company is engaged in the processing & supplying premium range of milk and milk products viz. skimmed milk, skimmed milk powder (SMP), butter, ghee and curd amongst others. The products of the company are sold under the brand name of 'Misty'. The manufacturing facility of the company is located at Itkal, Maharashtra with installed milk processing capacity of 6 lacs liters per day (lpd), 4 MT per day (MTPD) of ghee, 8 MTPD of butter and 20 MTPD of skimmed milk products. The manufacturing facilities of the company are accredited with ISO 9001: 2008.

## KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY18	FY17
Result Type		Audited	Audited
Operating Income	Rs. Crs	335.23	276.75

Ebitda	Rs. Crs	11.48	13.36
PAT	Rs. Crs	4.16	4.45
D/E	Times	1.43	1.82
ISCR	Times	2.34	2.93
Current Ratio	Times	1.21	1.14

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA**

**RATING HISTORY:**

Sr. No.	Instrument / Facilities	Current Rating			Rating History		
		Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	2018	2017	2016
1	Term Loan	Long Term	5.00	BWR BBB-Stable	N.A	N.A	N.A
2	Cash Credit (CC)	Long Term	65.00	BWR BBB-Stable	N.A	N.A	N.A
	Total		70.00	INR Seventy Crores Only			

**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:**

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

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**Vaishno Devi Food Products Pvt. Ltd**  
**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

S. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Canara Bank	Term Loan	5.00	-	5.00
		Cash Credit (CC)	28.88	-	28.88
2	Yes Bank	Cash Credit (CC)	25.00	-	25.00
3	-	Proposed Cash Credit	11.12		11.12
<b>TOTAL</b>					<b>70.00</b>



### **For print and digital media**

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### **DISCLAIMER**

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