

Rating Rationale

15 Oct 2020

Gopaljee Dairy Foods Pvt. Ltd.

Brickwork Ratings reaffirms the long term rating, with the change in outlook to Stable, and the short term rating for the enhanced Bank Loan Facilities of ₹ 283.07 Crores of Gopaljee Dairy Foods Pvt. Ltd.

Particulars:

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (11 Sep 2020)	Present
Fund based					
Cash			Long Term	BWR BBB+ Negative	BWR BBB+ Stable (Reaffirmed)
Credit/WHR	147.25	203.25			
CECL	-	13.00			
Term Loans	78.65	62.32			
Un-tied limits	15.00	-			
Non Fund Based					
Import LC	4.50	4.50	Short Term	BWR A2+	BWR A2+ (Reaffirmed)
Total	245.40	283.07	Rupees Two Hundred & Eighty-Three Crores & Seven Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

BWR has reaffirmed its outstanding ratings for the bank loan facilities of Gopaljee Dairy Foods Pvt. Ltd. (GDFPL or the company), factoring in its established track record in the dairy business for over two decades, consistent improvement in its top-line growth on account of new geographies added, various strategic changes initiated to improve operating margins and reduce its inventory holdings, strong milk procurement systems along with established distribution network and brand visibility in north India.

The ratings are, however, constrained by leveraged capital structure due to increasing debt levels against moderate tangible net worth, low profitability margins and declining debt protection metrics of the company.

The outlook has been revised from 'Negative' to 'Stable' owing to better inventory management undertaken by the company, expectations of improvement in its cash conversion cycle, net profit margins and debt protection metrics in FY21, owing to various milk procurement and marketing and selling strategies undertaken by it in the current financial year. The outlook for the dairy industry is also expected to improve with good monsoons and with the gradual opening up of the economy.

Impact of COVID 19: The company is registered under FSSAI, APEDA, AGMARK from Ministry of Agriculture (GoI), and its products are treated as an essential commodity, and therefore its manufacturing plants were operational during the lockdown imposed on account of the COVID-19 pandemic, although in the initial days there were curbs on the inward and outward supply of goods due to insufficient availability of labour and transportation services. However, the same became available after a few days. The company had applied for a moratorium from its lenders, under the rules but the interest has been serviced. Further, it has availed emergency line funding for Rs. 13 Crs, which is included in the rated debt.

Rating Outlook: Stable.

BWR believes that Gopaljee Dairy Foods Pvt. Ltd.'s business risk profile is likely to 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 revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

Key Rating Drivers

Credit Strengths:

Experienced promoters: Mr RS Dixit, Chairman-cum-M.D. of the company, started this business in the year 1986 as a first-generation entrepreneur from the ground level, from procuring raw milk and establishing relationships with farmers, to processing the final product. The entire operations of the company continue to be under his sole executive control. Other directors are Mrs Sunita Dixit, Mr.Rahul Dixit and Mr Nikhil Mishra who oversee the milk procurement segment.

Strong Milk Procurement Network: The company has established a strong milk procurement network which is operated in Uttar Pradesh through 32 milk chilling centres (MCC) and more than 6000 village level societies. During peak milking season, the company collects more than 12 lakh litres 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 to coordinate operations from MCCs to the selling depots.

Consistent improvement in its revenue profile: Consistent improvement in its revenue growth, which is expected to grow further over the medium term due to expansion into other geographies and more penetration towards Delhi NCR. All of its units (both owned & leased) are running at satisfactory levels. For the years FY17~20, the company has registered a CAGR growth of 10.51%. The company registered a revenue of Rs.1495.11Cr in FY20 (Prov) vis-a-vis Rs. 1443.28 Cr in FY19.

Strategic changes implemented to improve the EBITDA and revenue in the near future: The company has changed its distribution network which effectively came into operation since Jan 20, to franchisee model from CoCo outlets. Presently, it has a total of around 412 (increased from 240) franchisee outlets in the current financial year. Due to this change, the company is expected to save its operational expenses by 1.50% to 1.75%.

Strategic changes bring down the inventory holding: The company is in the process to improve the supply chain of procurement of cow and buffalo milk. Since the flushing season of both is different, the company proposes to derive the benefit of an extended flushing season. As milk will be available for a more extended period, the company will be required to store lower amounts of SMP for its own use during the lean season, leading to lower inventory holdings

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 FY20. It has a strong presence in Delhi NCR and Uttar Pradesh, besides adding other states in north India such as Punjab, Haryana, Himachal Pradesh and Uttarakhand in its marketing outreach.

Credit Risks:

Low operating profit margins: Despite improvement in the share of value-added products in its total revenue profile, operating profit margins declined in FY20 (prov) to 3.66% from 4.24% in FY19, owing to unavoidable external factors viz increase in the raw milk procurement cost during the flush season, unlike in the previous years when the cost of milk procurement went down during this season. GDFPL has limited ability to pass on the additional costs to customers owing to high competition in the industry. The milk procurement cost is expected to be favourable this year.

High gearing ratio: The company has a high gearing (TOL/TNW ratio) of 4.55x and Total debt/TNW ratio of 2.76x in FY19, owing to debt funded capex. Going forward, the ability of the company to bring down its overall gearing profile by infusing additional funds or improving its profitability margins with the absence of any debt-funded capex will remain a key rating sensitivity.

Increasing working capital limit utilization: The cash conversion cycle of the company has increased to 59 days in FY20 (prov.) from 46 days in FY19 on account of increase in inventory holding days to 70 days in FY20 (prov.) from 63 days in FY19, resulting in high working capital requirement.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology on a standalone basis as detailed in the Rating Criteria detailed below.

Rating Sensitivities:

Positive: BWR may revise the ratings upward if the company is able to improve its gearing (TOL/TNW ratio) to below 3x, net profit margins to at least 1.25% and ISCR to more than 4x in FY21, with other metrics, also favouring an upgrade.

Negative: BWR may revise the ratings downwards if the company's ISCR falls to below 2x, gearing deteriorates beyond FY19 levels, PAT margins remain below 1%, and inventory holding position deteriorates in FY21.

Liquidity: Adequate

Average utilisation of its CC/SLC limits and WHR limits stood at around 84.96% and 55.87%, respectively over the past 15 months. These limits are primarily utilised at above 90% level during the peak season (March-May) and subsequently get reduced to below 40% level in other months. Inventory holding, as on Aug 2020, declined to Rs.200 Crs vis-a-vis Rs.262Crs in March20. Further, the company has got additional WCDL limits sanctioned under the consortium lending arrangement from its lenders which will provide a need-based cushion to the company. GDFPL has generated net cash accruals of around Rs 30.84 Crs in FY20 (prov.) and expects to generate net cash accruals of around Rs. 50.11 Crs, which are expected to adequately cover repayment obligations of around Rs 19 Crore in FY21.

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 sells products under the brand name of "Gopaljee" and "Ananda" Its 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 a capacity of 1.12 LLPD and 4) Gajraula unit (third-party manufacturer) having a capacity of 3 LLPD.

GDFPL uses 32 Milk Chilling Centers, (of which eight are owned and remaining leased) and 6000 Village Level Centers (VLC) as on date. B2C segment contributes more than 90% of its total turnover generated during FY20.

Key Financial Indicators:

Particulars	FY19 (A)	FY20 (Prov)
Total Operating Income (Rs. Crs)	1443.28	1495.11
EBITDA (Rs. Crs)	61.18	54.71
PAT (Rs. Crs)	11.79	15.51
Total Tangible Networth (Rs. Crs)	71.07	86.83
Gearing (Total Debt/TNW) Ratio (times)	2.76	2.69
ISCR (times)	2.84	2.24

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

Any other information: Nil

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

Facility	Current Rating (2020)	Rating History																				
		2019	08 May 2018	03 April 2017																		
BLR	<table border="1"> <tr> <td>FB</td> <td>278.57</td> <td>BWR BBB+ Stable</td> </tr> <tr> <td>NFB</td> <td>4.50</td> <td>BWR A2+</td> </tr> </table>	FB	278.57	BWR BBB+ Stable	NFB	4.50	BWR A2+	<p>11 Sep 2019</p> <table border="1"> <tr> <td>FB</td> <td>249.90</td> <td>BWR BBB+ Negative</td> </tr> <tr> <td>NFB</td> <td>4.50</td> <td>BWR A2+</td> </tr> </table>	FB	249.90	BWR BBB+ Negative	NFB	4.50	BWR A2+	<table border="1"> <tr> <td>FB</td> <td>181.24</td> <td>BWR BBB+ Stable</td> </tr> </table>	FB	181.24	BWR BBB+ Stable	<table border="1"> <tr> <td>FB</td> <td>181.24</td> <td>BWR BBB+ Stable</td> </tr> </table>	FB	181.24	BWR BBB+ Stable
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Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

Hyperlink/Reference to Applicable Criteria

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

- [Manufacturing Unit](#)
- [Short Term Debt](#)

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Gopaljee Dairy Foods Pvt. Ltd

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank Of India	CC	60.00	-	60.00
2		CECL	11.00	-	11.00
3		SLC	8.25	-	8.25
4		WHR	55.00	-	55.00
5		TL	21.87	-	21.87
6	Yes Bank Ltd	TL	11.53	-	11.53
7		LC	-	4.50	4.50
8	IndusInd Bank Ltd.	CC	15.00	-	15.00
9		WHR	5.00	-	5.00

10		TL	10.93	-	10.93
11	Axis Bank	CC	4.00	-	4.00
12	SBM Bank	CC	10.00	-	10.00
13		TL	9.85	-	9.85
14	Bandhan Bank	CC	26.00	-	26.00
15		TL	8.14	-	8.14
16	UCO Bank	CC	20.00	-	20.00
17		CECL	2.00	-	2.00
Total			278.57	4.50	283.07

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