

November 02, 2017

Shreedhar Milk Foods Limited

Summary of rated instruments

Instrument [^]	Rated Amount (Rs. crore)	Rating Action
Non Convertible Debenture Programme	20.00	[ICRA]D ISSUER NOT COOPERATING*; Downgraded from [ICRA]BBB-(Stable) and moved to the 'Issuer Not Cooperating' category
Total	20.00	

[^]Instrument details are provided in Annexure-1

*Issuer did not cooperate; based on best available information

Rating action

ICRA has downgraded the ratings for the Rs. 20.0 crore Non Convertible Debenture programme of Shreedhar Milk Foods Limited ('SMFL' or 'the company') to [ICRA]D (pronounced ICRA D) from [ICRA]BBB- (Stable) (pronounced ICRA triple B minus with a Stable outlook). ICRA has also moved the ratings to the 'Issuer Not Cooperating' category. The rating is now denoted as "[ICRA] D ISSUER NOT COOPERATING"

Rationale

The rating downgrade follows the delays in debt servicing on its bank facilities by Shreedhar Milk Foods Limited, as confirmed by the bankers to ICRA.

ICRA has limited information on the entity's performance since the time it was last rated in August 2016. As part of its process and in accordance with its rating agreement with Shreedhar Milk Foods Limited, ICRA has been trying to seek information from the entity so as to monitor its performance, but despite repeated requests by ICRA, the entity's management has remained non-cooperative.

In the absence of requisite information and in line with SEBI's Circular No. SEBI/HO/MIRSD4/CIR/2016/119, dated November 01, 2016, ICRA's Rating Committee has taken a rating view based on the best available information.

Key rating drivers

Credit strengths

- **Healthy scale-up in operations during recent years:** SMFL's revenues have grown at a CAGR of 39% over FY2012-FY2017 aided by capacity expansion, introduction of new products and higher realisations
- **Experienced promoters and professional management:** Promoter have good experience in the dairy industry, and the company has also inducted professional management to pursue plans of scaling-up direct marketing business

Credit weaknesses

- **Delay in debt servicing owing to liquidity pressures:** SMFL has delayed on timely servicing of its term loans, and cash credit facilities have been over-utilised, highlighting liquidity pressures
- **Credit metrics expected to remain weak due to ongoing debt-funded capital expenditure requirements:** SMFL has been undertaking debt-funded capital expenditure, which coupled with increased working capital debt on its books due to scale-up in operations, has resulted in high gearing levels and weak coverage indicators for the company.
- **Weak profit margins due to B2B exposure:** SMFL's business profile is primarily 'B2B' which limits its bargaining power and ability to improve margins
- **High product concentration risks:** Revenue-mix characterised by high product concentration risks such as skimmed milk powder (SMP) and ghee, both of which exhibit high price volatility and face high competition.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Policy on Non Cooperation by rated entity](#)

About the company:

Incorporated in 2005, Shreedhar Milk Foods Limited (SMFL) is a medium-sized dairy processing company engaged in processing liquid milk and manufacturing various milk-based products such as skimmed milk powder (SMP), pure ghee, white butter, cottage cheese, curd and sweets. The company's processing facility is located at Joya in Uttar Pradesh, with a processing capacity of 14.30 lakh litres per day (LLPD). With a product-mix concentrated in favour of SMP, pure ghee and related derivatives, SMFL largely caters to the bulk/institutional segment under its brand, 'Shreedhar', through its network of C&F agents. A small proportion of the company's business is also generated from contract manufacturing operations for players like Mother Dairy and COMFED. While a majority of SMFL's business comes from the bulk segment, it is currently in the midst of expanding its direct marketing business, especially for poly-pack milk. To achieve this, it has recently started procuring milk directly from villages by setting up Village Level Collection Centres (VLCCs) and Milk Chilling Centres (MCCs).

SMFL is promoted by the Delhi based Goel family. The promoters have significant experience in the dairy industry, with their roots in the milk trading business for the last four generations. With its plans of expanding its retail presence, the company has inducted professional management with significant experience in the dairy industry. SMFL also raised equity funding from a Mauritius-based private equity fund, 'The Great Indian Tusker Fund', and another entity, Omrudra International Trading LLC. Following the equity infusion, the promoter's stake in the company stood at 93.3% as of June 2016.

Key Financial Indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1,067.5	1,276.8
PAT (Rs. crore)	15.2	22.1
OPBDIT/ OI (%)	3.7%	5.3%
RoCE (%)	18.4%	18.5%
Total Debt/ TNW (times)	2.2	2.6
Total Debt/ OPBDIT (times)	5.1	4.2
Interest coverage (times)	1.9	2.5
NWC/ OI (%)	23.4%	24.7%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017
					November 2017	
1	NCD	Long Term	20.00	20.00	[ICRA]D ISSUER NOT COOPERATING*	[ICRA]BBB- (Stable)

*Issuer did not cooperate; based on best available information

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE545V08017	NCD	August 12, 2016	15.75%	August 24, 2019	20.00	[ICRA]D ISSUER NOT COOPERATING*

*Issuer did not cooperate; based on best available information

Source: BSE

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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