

## Shreedhar Milk Foods Limited

May 16, 2018

### Summary of Rated Instrument:

Instrument	Previous Rated Amount(Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Non-Convertible Debentures (NCD)	20.00	20.00	[ICRA]D ISSUER NOT COOPERATING*; Rating continues to remain in the 'Issuer Not Cooperating' category

\*Issuer did not co-operate; based on best available information.

### Rationale

The rating for the Rs. 20.00 crore Non-Convertible Debenture programme of Shreedhar Milk Foods Limited (SMFL) continues to remain in the 'Issuer Not Cooperating' category. The rating is denoted as "[ICRA] D ISSUER NOT COOPERATING". The rating takes into account continued delays in debt servicing by the entity.

SMFL had the interest payment on its listed Rs. 20.0 crore NCD programme (ISIN: INE545V08017) falling due on May 13, 2018. There has been no receipt of information from the rated entity and Debenture Trustee ["DT"] regarding timely servicing of debt, and non-availability of debt servicing disclosure(s) on recognized stock exchange as mandated under Securities Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015.

ICRA in accordance with SEBI Circular on 'Monitoring and Review of Ratings by Credit Rating Agencies (CRAs)', dated June 30, 2017 has sought confirmation from Shreedhar Milk Foods Limited on debt servicing for the instruments detailed below, however no response has been received as yet:

### Instrument details:

ISIN No	Type of Instrument	Date of Issuance	Size of the issue (Rs. Cr)	Coupon Rate	Maturity Date	Interest Payment due date	Principal Payment due date	Rating Outstanding
INE545V08017	NCD	August 12, 2016	20.00	15.75%	August 24, 2019	May 13, 2018	August 24, 2019	[ICRA]D ISSUER NOT COOPERATING*

\*Issuer did not co-operate; based on best available information

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 challenges

**Delay in debt servicing owing to liquidity pressures:** SMFL has delayed on timely servicing of its term loans and non-convertible debenture programme, 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

ICRA has applied its rating methodologies/policies as indicated below:

### Links to applicable criteria:

[Policy in respect of non-cooperation by the rated entity](#)

[Corporate Credit Rating Methodology](#)

### 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)

	FY 2016	FY 2017
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%

### Status of non-cooperation with previous CRA:

Ratings from CRISIL were downgraded to [CRISIL]D and moved to Issuer Not Cooperating category on November 8, 2017 due to SMFL's non-cooperation for review of ratings.

### Any other information: None

### Rating history for last three years:

		Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 August 2016	Date & Rating in FY2016
1	NCD	20.00	20.00	May 2018 [ICRA]D ISSUER NOT COOPERATING*	[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](http://www.icra.in)

## Annexure-1: Instrument Details

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

Source: BSE

\*Issuer did not cooperate; based on best available information

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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.

For more information, visit [www.icra.in](http://www.icra.in)

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