

Press Release

LV Dairys Patas (LVDP)

February 20, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned	Rating Action
1	Long Term Bank Facilities	48.25	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
2	Short Term Bank Facilities	4.00	IVR A4+ (IVR A Four Plus)	Assigned
	Total	52.25		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facility of L V Dairys Patas (LVDP) derives comfort from its established partners and long track record of operations in the dairy industry, established milk procurement network and infrastructure facilities, strong brand name and its strong distribution network. The ratings also factors in its diversified revenue stream with growing focus in value added products segment, continuous growth in total operating income, comfortable debt protection parameters and positive demand outlook for milk and milk products.

However, the rating strengths are partially offset by its partnership nature of constitution, susceptibility to changes in government policies and environmental conditions, intense competition, modest operating profitability, moderately leveraged capital structure and working capital intensive nature of operation although managed prudently.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Improvement in the capital structure

Downward factor:

- Decline in scale of operations with decline in profitability
- Moderation in the capital structure with deterioration in overall gearing to more than 3x

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced partners and long track record of operations in the dairy industry**

LVDL started its operation in 2005 with a small milk collection centre and door to door delivery and gradually extended their operations from a single product operator to a multi-product dairy firm. The partners of LVDP are vastly experienced with their longstanding presence in the dairy industry.

- **Established milk procurement network and infrastructure facilities**

LVDP has been in dairy business for more than a decade and has established relationship with milk farmers in its area of operation ensuring consistent supplies of good quality raw milk. On an average the firm daily handles around 2.75 lakh litres of milk. LVDP has a strong milk procurement network. Although LVDP, does not have any long-term contract with the milk producers, long relationship with farmers/agents, regular advance and timely payment, supply of good quality cattle feed has helped to ensure continuous supply of milk. LVDP have 7 owned tankers with a capacity of 20KL each and two tankers with a capacity of seven KL each and an arrangement with three transport contractors for transportation of milk.

- **Strong brand name**

LVDP markets its milk and other milk products under the brand name of “Go-Shakti” and Ice- Cream under the brand name of “Elvis”. The brands are well established in Pune region and its nearby areas driven by its long presence in the market.

- **Diversified revenue stream with growing focus in value added products segment**

LVDP has a wide portfolio of customers. The firm offers a wide range of milk and milk products like raw milk (Cow milk, Toned milk), Skim Milk Powder and milk products like butter, ghee and ice-cream which enable it to cater to a broader customer base and diversify its revenue. Further, LVDP is also focusing on increasing sale of value-added products like Condensed milk, SMP, Ice-cream, Butter and Ghee to reduce its dependence on raw milk sales.

- **Strong distribution network**

The firm use its own marketing network for marketing of its milk and milk products across Pune & rural Areas, Solapur & Rural Areas, Navi Mumbai-Thane area and resort to direct selling to retailers/caterers located in these areas. Presently, the firm deals with around 600 retailers. In addition to its retail sales, LVDP has established relationship and long-term arrangement with various big and established diaries. For marketing of SMP and other milk products in other states the firm mainly use wholesalers located in those states.

- **Continuous growth in total operating income**

LVDP's total operating income has grown at a CAGR of ~57% during FY17-FY19 and witnessed an increase of ~89% y-o-y to Rs.306.74 crore in FY19. This is driven by increased revenue from addition of condensed milk and SMP in its product profile from second half of FY19 attributable to completion of commissioning of SMP plant (production started from Sep, 2018). The company has reported revenue of Rs.305.24 crore in 9MFY20 with EBITDA margin of 4.58%, PAT margin of 1.02%, Interest coverage of 3.36x.

- **Comfortable debt protection parameters**

The debt protection parameters of the firm remained satisfactory with a comfortable interest coverage ratio of 2.52x and moderate Total debt to Gross cash accruals of 7.03x in FY19. Further, the TOL/TNW also remained satisfactory at 2.43x as on March 31, 2019.

- **Positive demand outlook for milk and milk products**

The long-term outlook of Indian dairy sector is favourable on account of increasing population, increasing disposable income, increase in per capita consumption, and increase in expenditure on package food, brand awareness, urbanization and government support. India's milk production increased from 165.40 MMT in 2016-17 to 176.35 MMT in 2017-18, a growth rate of 6.62%. The per capita availability of milk in India during 2017-18 was 375 gm/day and by 2023-24, it is estimated to increase to 592 gm/day which is still low as compared to the global average. Milk and other dairy products are growing faster than other commodities in the bucket list of households and INFOMERICS expects this to continue in medium term to long term.

Key Weaknesses

- **Partnership nature of constitution**

Being a partnership firm, LVDP is exposed to inherent risk of withdrawal of capital and less regulatory compliances. However, there were no instances of capital withdrawn in past three years. Moreover, the partners have shown positive commitments by infusing funds in the business in the form of unsecured subordinated loans and further capital on regular intervals.

- **Susceptibility to changes in government policies and environmental conditions**

Milk price in Maharashtra is sensitive to government policies through Minimum Support Price and other regulations. LVDP, like all dairy players, is susceptible to government regulations and to risks related to volatility in global milk powder prices. Also, milk procurement is vulnerable to environmental conditions, such as bovine diseases. In addition to the above risks there also exists an operational risk such as handling and transportation of milk that may have an impact on the quality.

- **Intense competition**

The sector is largely dominated by the unorganised sector and Indian dairy industry is characterized by intense competition due to presence of many small to medium unorganized players, co-operatives along with large established players. Even with milk being a regional play, LVDP faces tough competition with the presence of large cooperatives and private players with Pan India network. However, LVDP is increasing its base in West Bengal, Punjab, Delhi, Coimbatore by investing in a diverse value-added products portfolio and brand building.

- **Modest operating profitability**

Operating profitability is susceptible to inherent volatility in milk procurement prices. However, LVDP's operating margin remained stable and range-bound during FY17-FY19. Further, during FY19, Indian dairy industry has witnessed a milk glut due to high inventory and slow movement of SMP due to global dairy slowdown which led to decline in milk prices and affected the margin to an extent. However, the situation is improving from the latter part of FY19 with gradual decline in SMP inventory.

- **Moderately leveraged capital structure**

LVDP has moderately leveraged capital structure as on the past three account closing dates mainly due to higher dependence on bank borrowings to fund its working capital requirements. Further, recently concluded debt funded capex for setting up SMP plant also resulted in higher debt levels. The debt equity ratio and the overall gearing though improved from 0.81x and 2.37x respectively as on March 31, 2018 to 0.57x and 2.01x as on March 31, 2019 remained moderate.

- **Working capital intensive nature of operation although managed prudently**

The average inventory period of the firm remained low at around 12-14 days due to lower shelf lives of the raw material (milk) and finished goods (milk/milk products). However, a bulk portion of its raw milk sales are to institution buyers where the average collection period remained around a month. Further, for retail sales payment is received within 3-10 days. LVDP makes payment to the milk producers in 2-10 days of procurement. Further, the firm has to extend advance to farmers in order to ensure steady supply of raw milk which intensify its working capital requirements. Accordingly, the operating cycle of the firm remained moderate in the range of 40-50 days during FY17-FY19. The average utilisation of bank borrowings stood high at about 95% during the past 12 months ended on January, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis its repayment obligations. Its capex requirements are low and expected to be funded using debt of Rs.3.50 Crore for which it has sufficient headroom. Its bank limits are utilized to the extent of ~95% during the past 12 months ended January, 2020. The liquidity position is supported by above unity current ratio at 1.26 times as on March 31, 2019.

About the Firm

L.V. Dairy Patas (LVDP), a partnership firm was set up in 2005 by Pune (Maharashtra) based Mr. Mangesh L Doshi, Mr. Mahesh L Doshi, and Mr. Milind L Doshi (Brothers in relation). After demise of Mr. Mangesh L Doshi in 2017, the firm is governed by the partnership deed

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dated May 27, 2017 where Mr. Mahesh L Doshi, Mr. Milind L Doshi and Mrs. Manali Mangesh Doshi (wife of Late Mangesh L Doshi) are equal partners.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	162.09	306.74
EBITDA	8.13	12.43
PAT	0.21	1.18
Total Debt	49.19	52.69
Tangible Net worth	20.72	26.15
EBITDA Margin (%)	5.02	4.05
PAT Margin (%)	1.14	0.38
Overall Gearing Ratio (x)	2.37	2.01

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: CRISIL has moved the rating of LVDP into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated August 02, 2019.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long term bank facilities	Long Term	48.25	IVR BB+ Stable Outlook	-	-	-
2.	Short term bank facilities	Short Term	4.00	IVR A4+			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Ratings Assigned/ Outlook
Long Term Bank Facilities	-	-	-	48.25	IVR BB+ / Stable Outlook
Short Term Bank Facilities	-	-	-	4.00	IVR A4+
Total				52.25	