Press Release

Chanakya Dairy Products Private Limited

March12, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator (Simple / High / Complex)
Long Term Bank Facilities	141.00	IVR BBB/Stable (IVR triple B with Stable outlook)	Assigned	Simple
Total	**141.00 (One forty-one crore rupees)**			

Details of facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities ofChanakya Dairy Products Private Limitedconsidersthe extensive experience of the promoters in the dairy and dairy product industry coupled withthe company's adequate milk procurement network and satisfactory distribution network, significant share of value-added products in the revenue leading to a comfortable financial profile and capital structure.However, the ratingsareconstrained on account ofmoderate scale of operations with further moderation in FY21 on account of COVID headwinds, intense competition from other players,along withsensitivity to SMP stock and institutional demand and exposure to external factors and government regulations.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any significant rise in working capital intensity or unplanned debt-funded capex leading to a deterioration in the liquidity position.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters and established presence in the dairy industry

The promoter, Mr. Vinod Kumar Dutt has around three decades of experience in the dairy industry. The rich experience of the promoter has helped Chanakya Dairy Products Pvt Ltd maintain healthy relationship with the suppliers. Furthermore, the company was incorporated in 2004 and has established operation existence of around 17 years.

Adequate milk procurement network spread across Punjab, satisfactory distribution network

CDPPL's procurement matrix is spread across the states of Punjab, Rajasthan and Haryana. Presence of the procurement network which consists of 8 chilling centers and network of bulk cooling centers which is in proximity to the Punjab, provides location advantage in terms of logistics given the physiological sensitivity of the product (milk) as also provides for some cost advantage. On the other hand, the group over the years has established an efficient distributor network covering a large network of dealers and retailers spread across Himachal Pradesh, Punjab, Haryana, and Chandigarh. Going forward, the company plans to expand into the markets of Rajasthan and increase its market penetration in the market.

Significant share of value-add dairy products in the revenue profile though current focus remains on traditional products

The revenue profile remains dominated by milk followed closely by value-add dairy products (61% in FY2021 in CDPPL). Within the dairy products, the revenues in the past have been dominated by traditional products like ghee, paneer, dahi etc. The group though focusses on traditional milk products, but it has also introduced new products like flavoured milk in its portfolio. Moreover, the company has also started production of UHT milk in the current fiscal, and the ice-cream plant is also expected to become operational from April 2022. The additional products will enable the company to further diversify its products. Moreover, with varied revenue base the topline and profitability is expected to increase, which will be a key credit rating metric.

Comfortable financial profile

Even though the revenue of the company declined by ~13% in FY21 to Rs. 318.59 crore as against Rs.364.69 crore in FY20. The profitability of the company improved in FY21 with EBITDA improving to 8.70% (PY:7.58%). The improvement in EBITDA margin is attributed to the decline in milk price during the lockdown. In the current fiscal year, the company has achieved a topline of Rs. 179.19 in H1 FY22 crore vis-à-vis Rs. 155.14 crore in H1 FY21, depicting a growth of ~15% y-o-y basis. Consequently, the profits also increased in the current fiscal year. Given the current macroeconomic scenario, Infomerics expects a steady increase in the topline and profits of the company, going forward.

Comfortable capital structure

The total debt of the company in FY21 has increased to Rs. 115.60 crore (PY: 77.14 crore) and tangible net worth of the company improved to Rs. 69.75 crore (PY: Rs. 62.46 crore) leading to deterioration in gearing to 1.66x (PY:1.23x), DSCR to 1.82x (PY: 3.57x) and ISCR to 4.58x (PY:8.28x), albeit the deterioration the capital structure remained comfortable. The debt levels of the company increased on account of undertaking the debt-funded capital expenditure plan for installing the UHT milk and ice-cream plant in the current fiscal year. The capital expenditure is almost complete.

Favourable growth prospects of the dairy industry

On account of the COVID19 pandemic the revenues of the dairy sector witnessed contraction in FY21 on account of fall in institutional demand leading to adequate milk available for organized dairy cooperatives/ milk producer companies. The excess milk sourced by the dairies were converted to skimmed milk powder and butter resulting in surplus stock of the same. Further with Government of India’s new scheme of “Interest subvention on Term Loans for Dairy sector" on working capital blocked in SMP, Whole Milk Powder (WMP), white butter and ghee, there is an expectation for no additional burden of finance cost on dairy sector.In the long term the outlook for the dairy industry remains stable on account of various interest subvention schemes introduced by the government to modernize dairy infrastructure and promote higher production backed by the growing demand of milk and milk products backed by increasing per capita consumption.

Key Rating Weaknesses

Moderate scale of operations though some moderation in FY2021 given the Covid headwinds

CDPPL scale remains moderate with revenues in the Rs.300 crore to Rs.360 crore bracket in the past few fiscals. While the revenues have remained at close to Rs.364 crore in FY2020, given the subdued demand especially from the institutional customers and the logistics constraints impeding transport of products on account COVID lockdowns had impacted the revenues in FY2021 which remained at Rs. 318.59 crore. The company in the 6MFY2022 has reported Rs. 179.19 crore revenues given the reset of demand and logistics given the rapid normalization post Covid.

Stiff competition from other players

The milk and milk products industry is characterised by intense competition from the organised co-operatives, large private players and unorganized players. Apart, the profitability of dairy entities also remains vulnerable to the skimmed milk powder inventories as well institutional demand, any adverse movement is likely to have a bearing on their profitability.

Exposure of milk production to external factors such as climatic conditions and cattle diseases; as also to Government regulations on pricing of milk and milk products

Milk availability is influenced to a great extent by agro-climatic conditions, which plays a major influence in the tropics. The industry is vulnerable to risks associated with the failure of milk production due to external factors like cattle diseases and extension of the lean season due to drought-like conditions, which ultimately affect milk availability and hence prices. The price of the dairy industry's raw material, milk, is sensitive to Government policies, environmental conditions, and epidemic-related factors. The Milk and Milk Products Order (MMPO) regulates milk and milk products production in the country.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity-Adequate

The liquidity of the company is expected to remain adequate in the near to medium term marked by its sufficient accruals vis-à-vis debt repayment obligations. The average working capital limit utilisation also remained satisfactory at ~67% duringthepasttwelvemonthsendedOctober31,2021indicatinganadequateliquiditybuffer.

About theCompany

Chanakya Dairy Products Private Ltd.(CDPPL) was established 2004 as an Integrated Project in Dairy Business, the company collaborated with Punjab Agro Industries Corporation Ltd. to set up the project at Mandi Gobindgarh, Punjab. The company is engaged in manufacturing of products like Pasteurized packaged milk, milk powder, dairy whitener, butter, pure ghee, curd, lassi & paneer under HF-SUPER Brand. The company's marketing network consists of distributors & dealers/sub dealers/retailers in the States of Himachal Pradesh, Punjab, Chandigarh, and Haryana.The company is promoted by Mr. Vinod Kumar Dutt, who is also the Managing Director of the company.

Financials (Standalone)

INR in Crore

For the year ended* / As on	31-Mar-20 (A)	31-Mar-21 (A)
Total Operating Income	364.69	318.59
EBITDA	27.64	27.73
PAT	11.31	7.55
Total Debt	77.44	115.60
Tangible Net Worth	62.46	69.75

EBIDTA Margin (%)	7.58	8.70
PAT Margin (%)	3.10	2.37
Overall Gearing ratio (x)	1.23	1.66

**Classification as per Infomerics' standards*

Details of Non-Co-operation with any other CRA: Nil

Any other information: N.A.

Rating History for last three years:

Sr. No.	Name of Facility	Current Rating (Year: 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loans	Long term	96.00	IVR BBB/ Stable	-	-	-
2.	Working Capital Demand Loan	Long term	43.00	IVR BBB/ Stable	-	-	-
3.	OCC	Long Term	2.00	IVR BBB/ Stable	-	-	-

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About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Term Loan I	-	-	FY22	1.00	IVR BBB/ Stable
Term Loan II	-	-	FY24	14.17	IVR BBB/ Stable
Term Loan III	-	-	FY27	14.50	IVR BBB/ Stable
Term Loan IV	-	-	FY27	22.83	IVR BBB/ Stable
Term Loan V	-	-	FY28	14.17	IVR BBB/ Stable
Term Loan VI	-	-	FY28	29.33	IVR BBB/ Stable
Working Capital Demand Loan	-	-	-	43.00	IVR BBB/ Stable
OCC	-	-	-	2.00	IVR BBB/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details https://www.infomerics.com/admin/prfiles/CDPPL-Lender-12-03-22.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.