



## Press Release

### Kute Sons Dairys Limited

#### October 13, 2021

#### Ratings:

(INR Crore)

Instrument / Facility	Amount	Ratings	Rating Action
Long Term Fund Based Bank Facilities – Term Loan	39.88	IVR A-/Positive Outlook (IVR Single A Minus with Positive Outlook)	Assigned
Long Term Fund Based Bank Facilities – Cash Credit	220.00	IVR A-/Positive Outlook (IVR Single A Minus with Positive Outlook)	Assigned
Proposed Long Term Fund Based Bank Facilities – Cash Credit	9.29	IVR A-/Positive Outlook (IVR Single A Minus with Positive Outlook)	Assigned
<b>Total</b>	<b>269.17</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale:

The aforesaid ratings assigned to the bank facilities of Kute Sons Dairys Limited factors in the established presence of the group in the dairy industry added with its well development milk procurement and distribution network. The assigned ratings also factor in the steady growth in revenues and margins of the group over the last few fiscals notwithstanding the impact of Covid 19 in FY2021. The assigned ratings also factor in the comfortable debt metrics maintained by the group in the past few fiscals which are likely to continue going forward. Nonetheless, favourable demand for milk and milk products being the key staple diet of the Indian diet. However, the rating strengths are partially offset by the high working capital intensive nature of operations in their highly competitive dairy intensive Western Maharashtra as also its vulnerability to external factors such as climatic conditions, cattle diseases impacting production, as also government regulations on pricing of milk and milk products.

Positive outlook factors in steady increase in the performance of the group which is expected to be sustained in the near term given the favourable demand for milk and milk products as also the extensive business experience of directors.

#### Key Rating Sensitivities:

#### Upward Factors:

- Sustained and significant improvement in the scale of operations while maintaining profitability & debt protection metrics on a consolidated basis.
- Optimization of the operating cycle to around 80 days on a sustained basis.



## Press Release

- Substantial increase of value add dairy products in the revenue mix.

### **Downward Factors:**

- Any decline in scale of operations and/or profitability, leading significant deterioration of debt protection metrics and/or on a consolidated basis.
- Higher than anticipated debt availmentweakening the credit metrics
- Substantial increase in TOL/TNW than projected

### **Key Rating Drivers with detailed description**

#### **Key Rating Strengths:**

#### **Established presence in the dairy industry, well established milk procurement and distribution network:**

Kute Sons Dairys Limited (KDSL) & Kute Sons Fresh Dairy Private Limited (KSFDPL) have an established presence in the dairy industry. While KDSL operates since 1996, KSFDPL was established in 2014. KDSL's presence in the dairy industry close to 18 years before establishment of KSFDPL, which has enabled KSFDL early stabilisation. The Group largely procure cow milk from their established procurement channels in the catchment areas of Ahmednagar district and Satara district of Maharashtra which by virtue fall in the sugarcane – dairy belt of Western Maharashtra which also has ensured steady milk supply to the companies. The distribution network is spread across more than 13 states in India, 300+ distributors, 20+ super stockists, 37 retail outlets, 35+ MT outlets. Group market their products through the brand name "Good MorninG's"

#### **Steady growth in revenue and margins in the last few fiscals:**

The group have reported a steady growth in revenues in the past fiscals. While on a consolidated basis, the revenues have gradually risen to INR 1214.79 Crore in FY2021 over INR 770.67 Crore in FY2018 notwithstanding the impact of Covid 19, largely managing the costs have enabled the group to gradually improve its EBIDTA and PAT margins.

EBIDTA margin remained at 7.46% in FY21 as compared to 7.23% in FY18 while PAT margins remained at 2.75% in FY21 as compared to 2.85% in FY18. Notably, the group till date has largely focussed in the liquid milk segment which has kept its EBIDTA margins modest. The group in the recent years is planning to ramp up the VADP (value added dairy products) segment revenues and focus on B2B marketing enabling to improve its margins, which also will be a key monitorable going forward. The group has generated a revenue of INR 506.49 Crore for 5 Months ended August 2021 (5M FY21: INR 451.15 Crore).

#### **Comfortable capital structure & debt protection metrics:**



## Press Release

The capital structure of the group remained comfortable with overall gearing and long debt-equity of 1.47x and 0.40x as on 31st March 2021 compared 1.59x and 0.31x as on 31 March 2020 respectively. The groups adjusted net worth stood healthy at INR 212.10 Crore as on 31st March 2021 (Provisional) as compared to INR 178.86 Crore as on 31st March 2020. Interest coverage ratio stood at 2.43x in FY21 (FY 20: 2.20x). Total debt increased to INR 311.44 Crore in FY21 (FY20: INR 284.61 Crore). Total Debt / GCA ratio was at 6.45 times in FY21(8.51x). However, total indebtedness of the group marked by TOL/ATNW remained moderate at 1.74x as on March 31, 2021 (2.08x).

### **Favourable and sustainable demand for the milk and its products:**

The milk and milk products being a key staple of the Indian diet enjoy a favorable demand which also is likely to maintain albeit increase the sales momentum, going forward.

### **Key Rating Weaknesses:**

#### **High working capital intensity mainly on stretched receivables:**

The group's working capital intensity has remained high in the past fiscals, albeit has risen gradually to 34% in FY21 due to pressure on receivables. Milk products being a perishable commodity, the group has maintained its inventories at modest levels as indicated by 36 days as on 31<sup>st</sup> March 221 as compared to 44 days as on 31<sup>st</sup> March 2020. Optimization of receivables remains crucial to the liquidity position of the group.

#### **Exposure of milk production to external factors such as climatic conditions and cattle diseases,as also 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 the 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. The milk purchase price in Maharashtra is controlled by the state government, which issues a minimum rate for milk procurement (GR) at the inception of each lean and flush season.

#### **Stiff competition from organised co-operatives, private players and unorganised sector**

The milk and milk products industry is characterised by intense competition from the organised co-operatives, large private players and unorganised players. The Kute Sons



## Press Release

Dairy Group are present in the fiercely competitive western region of Maharashtra, which is a high milk-producing zone due to its conducive agro-climatic conditions. Consequently, it has a large number of co-operative dairies and small private players who pose stiff competition to .

### **Analytical Approach:** Consolidated

For arriving at the rating, Infomerics has combined the business and financial risk profiles of 2 companies Kute Sons Dairys Limited (KSDL) and Kute Sons Fresh Dairy Private Limited (KSFDPL) moving forward referred as a Kute Sons Dairy Group as they are in the same lines of business under a common management and have financial linkages & legal linkages as Kute Sons Fresh Dairy Private Limited is a wholly owned subsidiary of Kute Sons Dairys Limited. Furthermore, KSDL have given Corporate Guarantee to the debt of KSFDL.

### **Applicable Criteria:**

Rating Methodology for Manufacturing Companies.

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity–Adequate**

The liquidity position of the group remains adequate as cash accruals are expected to remain sufficient to meet the repayment obligations of INR 23.87 Crore, INR 10.90 Crore and INR 8.88 Crore in FY2022, FY2023 and FY2024. The current ratio stood at 1.50 times as on 31st March 2021. Cash & bank balance as on 31st March 2021 was INR 5.48 Crore. However, resourceful promoters are expected to provide the fund support if necessary. Absence of large debt funded capex plans in the near term also provides some liquidity comfort.

### **About the Company: Kute Sons Dairy's Limited (KSDL):**

KSDL was incorporated in February 1996 as Swaraj India Industries Limited (SIL). by Mr. Ranjeetsingh Naik Nimbalkar (Present Member of Parliament from Madha constituency - Maharashtra). SIIIL was taken over by Kute Group through Tirumalla Oil Refinery Private Limited (TORPL) in the year July 2019 and name was changed to KSDL. KSDL is engaged in processing of milk & milk related products such as Ghee, Milk & Dahi. KDSL's manufacturing plant are located at Phaltan, Satara & Pathardi, Ahmednagar. The existing installed milk processing capacity of the company is 20 lakh Liters per day. KSDL markets and sells its products under the brand name of "Good MorninG's".

### **About the Company: Kute Sons Fresh Dairy Private Limited (KSFDPL):**



## Press Release

KSFDPL was incorporated in the year 2014 as Fresh n Naturals Dairy Farms Private Limited (FNDFPL) by Phaltan based Nimbalkar family FNDFPL was subsidiary of SIIL. Consequent to takeover of SIIL by TORPL in July 2019; FNDFPL became step-down subsidiary of TORPL and name was changed to KSFDPL is engaged in the milk processing and milk related products such as butter, ghee, cheese, milk-whitener, whole-milk powder, and skimmed-milk powder among others. The existing installed milk processing capacity of the company is 2 lakh litres per day which is being increased to 3.5 lakh Liters per day. The milk processing unit of the company is located in Ahmednagar, Maharashtra.

### Financials: Consolidated (Kute Sons Dairy Group)

(INR Crore)

For the year ended/ As On	31-03-2020	31-03-2021
	(Audited)	(Provisional)
Total Operating Income	1168.93	1214.79
EBITDA	71.74	90.57
PAT	17.37	33.36
Total Debt	284.61	311.44
Adjusted Tangible Net-worth	178.86	212.10
<b>Ratios</b>		
EBITDA Margin (%)	6.14	7.46
PAT Margin (%)	1.48	2.75
Overall Gearing Ratio (x)	1.59	1.47

### Financials: Standalone (Kute Sons Dairys Limited)

(INR Crore)

For the year ended/ As On	31-03-2020	31-03-2021
	(Audited)	(Provisional)
Total Operating Income	910.54	928.07
EBITDA	66.86	82.93
PAT	25.34	32.05
Total Debt	275.05	281.31
Adjusted Tangible Net-worth	164.25	196.30
<b>Ratios</b>		
EBITDA Margin (%)	7.34	8.94
PAT Margin (%)	2.77	3.45
Overall Gearing Ratio (x)	1.67	1.43

**Status of non-cooperation with previous CRA: Nil**

**Any other information: NA**

**Rating History for last three years:**

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding	Rating	Date(s) & Rating(s)	Date(s) & Rating(s)	Date(s) & Rating(s)





## Press Release

			ng (INR Crore)		assigned in 2020-21	assigned in 2019-20	assigned in 2018-19
1.	Long Term Fund Based Bank Facilities – Term Loan	Long Term	39.88	IVR A-/ Positive	--	--	--
2.	Long Term Fund Based Bank Facilities – Cash Credit	Long Term	220.00	IVR A-/ Positive	--	--	--
3.	Proposed Long Term Fund Based Bank Facilities – Cash Credit	Long Term	9.29	IVR A-/ Positive	--	--	--

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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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## Press Release

### Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term Fund Based Bank Facilities – Term Loan	--	--	UptoJan-2026	39.88	IVR A-/ Positive
Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	220.00	IVR A-/ Positive
Proposed Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	9.29	IVR A-/ Positive

### Annexure 2: List of companies considered for consolidated analysis:

Name of the Company	Extent of Consolidation
Kute Sons Dairys Limited (KSDL)	Full*
Kute Sons Fresh Dairy Private Limited (KSFDL)	Full*

*\*Intercompany transaction has been adjusted as per Infomerics standard.*

### Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lender-KSDL-13-10-21.pdf>

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

### Annexure 5: Complexity level of the rated Instruments/Facilities:

Sr. No.	Instrument	Complexity Indicator
1	Long Term Fund Based Bank Facilities – Term Loan	Simple
2	Long Term Fund Based Bank Facilities – Cash Credit	Simple

**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](http://www.infomerics.com).