



Press Release

Kute Sons Dairys Limited (KSDL)

December 20, 2022

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	<u>Complexity Indicator</u>
Long Term Bank Facilities – Term Loans	36.82 (Reduced from Rs. 39.88 crore)	IVR A-/ Positive (IVR Single A Minus/ Positive)	Reaffirmed	Simple
Long Term Working Capital Facilities – Cash Credit	230.00 (Increased from Rs 220.00 crore)	IVR A-/ Positive (IVR Single A Minus/ Positive)	Reaffirmed	Simple
Proposed Long Term bank facilities – Cash Credit	2.35 (Reduced from Rs 9.29 crore)	IVR A-/ Positive (IVR Single A Minus/ Positive)	Reaffirmed	Simple
Total	269.17 (INR Two Hundred Sixty-Nine Crore and Seventeen Lakhs only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings reaffirmation of Kute Sons Dairys Limited's (KSDL) bank loan facilities continues to factor the established track record of the group in the dairy industry, diversified product portfolio, strong marketing and distribution network, favourable demand for the group's products, healthy growth in revenues and profitability, comfortable capital structure and debt protection metrics. However, rating continues to remain constrained on account of low-capacity utilisation, high working capital intensive nature of operations, intense competition in dairy business, company's vulnerability to external factors such as climatic conditions, cattle diseases impacting production and also to the government regulations on pricing of milk and milk products.

Positive outlook factors in expected increase in the performance of the group on the back of capital expenditure incurred, sustained growth in the near term given the favourable demand for milk and milk products as also the extensive business experience of directors.



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Key Rating Sensitivities:

Upward Factors

on a consolidated basis

- Sustained and significant improvement in the scale of operations while maintaining profitability & debt protection metrics.
- Optimization of the operating cycle to around 80 days on a sustained basis.
- Substantial increase of value-add dairy products in the revenue mix

Downward Factors

on a consolidated basis

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

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Established presence in the dairy industry:

Kute Sons Dairys Limited (in the dairy business since 1996) & Kute Sons Fresh Dairy Private Limited (in the dairy business since 2014) and has an established presence in the dairy industry. The Kute Sons Dairy Group markets its products, such as ghee, creamer (skimmed milk powder and whole milk powder), and butter etc. under its own brand “Good Moring’s”. The Group primarily caters to the Western and North Indian regions. The distribution network is spread across pan India, 300+ distributors, 20+ super stockists, 37 retail outlets, 35+ MT outlets. Furthermore, being a part of the Kute Group, Kute Sons Dairy Group also benefits from the promoters' experience of reaching out to customers over a larger area.

Diversified Product Portfolio:

Kute Sons Dairy Group manufactures a range of dairy products such as skimmed milk powder (SMP), whole milk powder (WMP), butter, clarified butter, pouch milk, bulk milk, cheese,



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cottage cheese, flavored milk, etc. The company has successfully aligned its infrastructure to B2C segment with complete conversion/upgradation of its plant and machinery, infrastructure and realigning its entire logistics, supply chain management, dealer network and procurement in line with the B2C segment. This has resulted in the B2C segment contributing ~60% of total revenues when compared to ~40% earlier. The company has also added 18 new B2C products with each product having 4-5 variants. The strengthening of the B2C (retail) segment is expected to result in improved operating margins and increased geographical presence.

Strong marketing and distribution network:

The current management is focusing on strengthening Kute Sons Dairy Group existing integrated strategy across the dairy value chain – from sourcing and processing, to branding and distribution in rural and urban markets. The Kute group with their extensive experience in the across value chain of FMCG market, can bring a lot of expertise in branding, distributing, marketing of groups value added products in B2C (retail) segment. For the distribution of products there are 750+ dealers catering to around 12 states. Products are sold under the Brand name of Good Mornings's. Company has its own fleet of vehicle for procurement and distribution.

Favorable demand for the products:

The milk and milk products being the essential commodities the COVID-19 and associated lockdown had limited impact on the operations of the Company and demand for its products, though some part of B2B (institutional) segment got affected with the closure of hotels/ restaurants. However, household/B2C demand has remained resilient to the impact of the COVID-19 outbreak and with the current management's greater focus on the B2C segment it may contribute meaningfully to the Company's revenue in FY22.

Healthy revenue growth & improving EBITDA margin:



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The group has witnessed a healthy growth in operation with an increase of about ~ 18% in turnover to INR 1432.78 Crore in FY22 from INR 1215.06 Crore in FY21 due to an increase in volume. The group has generated a revenue of INR 737.87 Crore for H1FY23. Profitability has increased with EBITDA and PAT margin improving to 8.27% and 3.73% in FY22 from 6.63% and 2.09% respectively for FY21.

Comfortable capital structure & debt protection metrics:

The capital structure of the group remained comfortable with adjusted gearing and long debt-equity of 01.44x and 0.76x as on 31st March 2022 compared 1.43x and 0.38x as on 31 March 2021 respectively. The financial risk profile of the group is comfortable marked by healthy net worth, debt protection metrics and debt coverage indicators. The adjusted net worth stood healthy at INR 367.42 Crore as on 31st March 2022 as compared to INR 223.13 Crore as on 31st March 2021. Interest coverage ratio stood at 3.13x in FY22 (FY 21: 2.35x). Total debt increased to INR 528.35 Crore in FY22 (FY21: INR 319.19 Crore). Total Debt / GCA ratio was at 7.87 times in FY2022. However, total indebtedness of the company marked by TOL/ATNW remained moderate at 1.66x as on March 31, 2022. Total debt/GCA, interest coverage & other debt protection metrics are expected to improve further moving forward.

Key Rating Weaknesses

High working capital intensity mainly on stretched receivables

The group's working capital intensity has remained high with operating cycle of 98 days and average working capital utilisation of ~82% in FY22. Company provides credit terms up to 90 days for milk and up to 150 days for other products to its dealers and distributors, hence the pressure on receivables. Milk products being a perishable commodity, the group has maintained its inventories at modest levels as indicated by 30 days as on 31st March 2022 as compared to 36 days as on 31st March 2021. Optimization of receivables remains crucial to the liquidity position of the group.



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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.

Highly competitive industry:

The dairy industry is highly fragmented with large number of organised and unorganised players. The company also faces competition from some of the big players such as Amul, Parag, Karnataka Milk Federation, among others in the organised segment. While the dairy segment has attracted significant PE investments in the past, which has supported the companies in the segment, it has also increased the competitive intensity among the players. This limits the company's ability to significantly improve the margins. Also, ensuring competitive remuneration to the farmers for procurement of milk would be a key sensitivity for maintaining a steady supply chain.

Ongoing capex and Low-capacity utilisation

Group's capacity utilisation in products like Butter, Skimmed Milk Powder (SMP), and Whole Milk Powder (WMP), Ghee and Curd remains low despite the increase in the installed capacity. Milk contributes to 90% of revenues whereas other products like milk powder, fresh butter and ghee contributing 5%, 4% and 1% respectively. The capital expenditure incurred by the company is yet to generate revenues from other products. Company has incurred ~Rs 200



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Crores till date out of Rs 350 Crores planned capital expenditure towards modernisation of plants and installation of additional capacity. Currently milk contributes ~80% of total revenues of the group with other products contributing only 20%. The increased capacity utilisation and higher contribution from other by products will be key rating sensitivities.

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.

Applicable Criteria:

[Rating Methodology for Manufacturing companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria for rating outlook](#)

[Consolidation of companies](#)

Liquidity – Adequate

The liquidity position of the group remains adequate as cash accruals are expected to remain sufficient to meet the repayment obligations. Further, the group had gross cash accruals of INR. 67.17 Crore in FY22. The overall utilisation of the fund-based limits remains moderate at ~80% during the last 12 months ended September 2022. The current ratio stood at 1.56 times as on 31st March 2022. Cash & bank balance as on 30 Nov 2022 was INR 7.24 Crore. Also, the group finds cushion from the financial support from the promoters.



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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 Madhaconstituency - Maharashtra). SIIL 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 Litres 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)

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 3.5 lakh Litres per day. The milk processing unit of the company is located in Ahmednagar, Maharashtra

Financials (Consolidated)*: (Kute Sons Dairys Limited)

(In Crore)

For the year ended / As on	31-03-2020	31-03-2021	31-03-2022
	(Audited)	(Audited)	(Audited)
Total Operating Income	1167.06	1214.79	1431.99
EBITDA	69.86	80.50	118.44
PAT	15.50	25.40	53.41
Total Debt	284.61	319.59	528.35
Adjusted Tangible Net-Worth	188.74	223.13	367.42
Ratios			
EBITDA Margin (%)	5.99	6.63	8.27
PAT Margin (%)	1.32	2.09	3.73
Overall Gearing Ratio (x)	1.51	1.43	1.44



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* Classification as per Infomerics' standards

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

(In Crore)

For the year ended / As on	31-03-2020 (Audited)	31-03-2021 (Audited)	31-03-2022 (Audited)
Total Operating Income	908.68	928.07	1105.01
EBITDA	64.98	72.86	108.86
PAT	13.92	24.29	52.14
Total Debt	275.05	289.31	491.58
Adjusted Tangible Net-Worth	164.25	188.54	340.67
Ratios			
EBITDA Margin (%)	7.15	7.85	9.85
PAT Margin (%)	1.52	2.62	4.72
Overall Gearing Ratio (x)	1.67	1.53	1.44

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (October 13, 2021)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Bank Facilities – Term Loan	Long Term	36.82	IVR A-/ Positive Outlook	IVR A-/ Positive Outlook	--	--
2.	Long Term Bank Facilities – CC	Long Term	230.00	IVR A-/ Positive Outlook	IVR A-/ Positive Outlook	--	--
3.	Proposed Long Term Bank Facilities	Long Term	2.35	IVR A-/ Positive Outlook	IVR A-/ Positive Outlook	--	

Name and Contact Details of the Rating Analyst:



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About Infomerics:

Infomerics was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI). Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks. Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations. For more information visit www.infomerics.com.

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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	-	-	Upto 2028	36.82	IVR A-/Positive
CC	-	-	Revolving	230.00	IVR A-/Positive



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Proposed	-	-	NA	2.35	IVR A-/Positive
Total				269.17	

Annexure 2: List of companies considered for consolidated analysis:

Name of the Entity	Extent of consolidation
Kute Sons Dairys Limited	Full*
Kute Sons Fresh Dairy Private Limited	Full*

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-Kute-Sons-dec22.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.