



Press Release

M.C Foods & Nutrition (Formerly M.C Traders)

August 7, 2023

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Previous Ratings	Current Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facility	20.56	IVR BB/Stable (IVR Double B with Stable Outlook)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Upgraded	Simple
	Total	20.56	Rupees Twenty Crore and Fifty Six Lakhs Only			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded the rating for long-term rating at IVR BB+ with stable outlook for the bank loan facilities of M.C Foods & Nutrition (MCFN).

The rating continues to draw comfort from its extensive industry experience of the promoter, increase in scale of operations, average financial risk profile. However, these rating strengths are partially offset by elongated operating cycle, stiff competition from organised co-operatives, private players and unorganised sector pressurizing profitability of dairy companies, sensitivity to SMP stock and institutional demand, 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, proprietorship nature of constitution.

IVR has principally relied on the audited financial results of MCFN's up to 31 March 2022, management certified provisional results for FY2023, and projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the firm's management.



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Upward Factors

- Continuous growth in revenue along with healthy profitability and debt metrics.
- Improvement in management of liquidity.

Downward Factors

- Fall in revenue and deterioration of debt protection metrics.
- Stretching of working capital cycle and requirements.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive industry experience of the promoter:

Extensive experience of promoter in the dairy products industry for milk procurement and processing to scale up operations continuously has enabled the promoter to understand market dynamics. The firm is benefited by experienced management, who has helped the firm to maintain healthy and long-standing relationship with the customers.

Increase in scale of operations:

Over the past three financial years, (FY2021-FY2023) total operating income of M.C Food and Nutrition has increased from Rs. 56.32 crore in FY2021 to Rs. 109.12 crore in FY2023(Provisionals) by a CAGR of ~25% mainly on account of increase in sales volume along with increase in sales realization of its products. Further, due to outsourced processing of excess milk procurement, the EBIDTA margins remained constant at 7.92% in FY2023 (Provisional) as compared to 7.65% in FY2022. PAT margin has remained moderate at 1.51% in FY2023 (Provisional) and 1.03% in FY2022. Gross Cash Accruals of the firm have also improved in FY2022(Provisionals) to Rs. 3.26 crore from Rs. 2.00 crore in FY2021.



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Average financial risk profile:

The TNW (including quasi equity) of the firm stood at Rs.37.06 Crore as on March 31,2023 (Provisional) as against Rs.36.26 Crore as on March 31, 2022. Unsecured loans to the tune of Rs. 29.17 crore as on March 31, 2023, have been considered as quasi-equity as the same are subordinate to bank debt. The overall gearing stood moderate at 0.95x as on March 31, 2023 (Provisional). Further, total indebtedness of the firm as reflected by TOL/TNW remained moderate at 1.13x as on March 31st, 2023 (Provisional). Interest coverage has deteriorated from 1.71x in FY22 to 1.61x in FY23(Provisional) due to increase in interest expenses. Total debt to GCA stood at 10.85x as on March 31,2023(Provisional) deteriorated from 8.15x as on March 31, 2022.

Key Rating Weaknesses

Elongated operating cycle:

Operations of the firm are working capital intensive as marked by elongated operating cycle of around 189 days for FY2023(Provisional). MCFN is required to maintain adequate quantity of raw materials and finished products to ensure smooth production and to meet demand of customers which has led to inventory holding period of 199 days for FY2023(Provisional). The company receives credit period of around 15 to 20 days from its suppliers resulting in average creditor period of 19 days for FY2023(Provisional).The average utilization of the working capital limits remained around 90% for the last 12 months period ended June 2023.

Stiff competition from organised co-operatives, private players and unorganised sector pressurizing profitability of dairy companies, sensitivity to SMP stock and institutional demand :

The milk and milk products industry are characterized by intense competition from organized co-operatives, large private players and unorganized players. Apart from this, 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.



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The Indian skimmed milk powder (SMP) market is expected to grow at a CAGR of around 13% during 2021-2026. The company's profitability has remained under pressure with EBITDA margins at around 5% in the past fiscals while the net profit margins have remained below 1% in the past fiscals. Margin expansion will be a key monitor, going forward.

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 affects milk availability and hence prices. The price of the dairy industry's raw material, milk, is sensitive to Government policies, environmental conditions factors.

Proprietorship nature of constitution:

M.C Foods and Nutrition, being a proprietorship entity, is exposed to inherent risk of proprietor's capital being withdrawn at the time of personal contingency and entity being dissolved upon the retirement/insolvency of the proprietor. Furthermore, proprietorship entities have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders.

Analytical Approach: For arriving at the ratings, IVR has analysed MCFN's credit profile by considering the standalone financial statements of the firm.

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for assigning rating outlook](#)



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Liquidity – Adequate

MC Food and Nutrition has an adequate liquidity with gross cash accrual of Rs 3.26 crore against repayment of Rs 0.56 crore as on March 31, 2023 (Provisionals). The working capital limit remained highly utilised at ~90% over the twelve months ended June 2023. The current ratio stood at 1.68x March 31, 2023 (Provisional). The firm has expected cash accrual in the range Rs 2.98 to 3.28 crore with repayment of Rs. 0.78 to Rs 0.74 crore. Liquidity is further supported by continuous infusion of equity and unsecured loans by the proprietor.

About the Firm

M.C Foods and Nutrition was established in 1982 as a proprietorship firm by Mr. Rakesh Kumar. MCFN is engaged in manufacturing dairy products like desi ghee, lassi, curd, paneer under the brand name of “Today Milk”. The manufacturing plant of the firm is situated in Nihal Singh Wala, Moga District, Punjab., with a milk processing capacity of ~ 1 lakhs liters per day in peak season. The products are sold in Chandigarh, Punjab, and Himachal Pradesh.

Financials (Standalone):

	(Rs. crore)	
For the year ended*/As on	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	70.48	109.12
EBITDA	5.39	8.64
PAT	0.72	1.64
Total Debt	18.07	35.36
Tangible Net worth	36.26	37.06
EBITDA Margin (%)	7.65	7.92
PAT Margin (%)	1.03	1.51
Overall Gearing Ratio (x)	0.50	0.95

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Brickwork vide press release dated October 3rd, 2022, has continued to classify the case under Issuer Not Cooperating category on account of non-submission of relevant information.



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Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 July 11, 2022	Date(s) & Rating(s) assigned in 2021-22 May 07, 2021	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	20.56	IVR BB+/Stable (Upgraded)	IVR BB/Stable	IVR BB/Stable	-

Name and Contact Details of the Rating Analyst:

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.



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Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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)	Rating Assigned/ Outlook
Long Term Facility- Term Loan	-	-	October 2028	0.98	IVR BB+/Stable
Long Term Facility- GECL	-	-	June 2024	0.46	IVR BB+/Stable
Long Term Facility- GECL	-	-	November 2026	1.12	IVR BB+/Stable
Long Term Facility- Cash Credit	-	-	-	18.00	IVR BB+/Stable

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

Annexure 3: Facility wise lender details



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<https://www.infomerics.com/admin/prfiles/len-MCFN-aug23.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 [Complexity Level of Rated Instruments/Facilities](#).