



## Press Release

### Farmgate Agro Milch Private Limited

January 18, 2024

#### Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	<a href="#">Complexity Indicator</a>
Long Term Bank Facilities	179.98	IVR BBB+/ Stable (IVR Triple B Plus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	28.75	IVR A2 (IVR A Two)	Assigned	Simple
<b>Total</b>	<b>208.73</b> <b>(Rs. Two Hundred Eight crore and Seventy-three lakh only)</b>			

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank facilities of Farmgate Agro Milch Private Limited (FAMPL) continues to derive comfort from its experienced promoters with long track record, strategic location of the plant, adequate milk procurement network spread across Punjab, satisfactory distribution network, continuous growth in scale and moderate financial risk profile. These rating strengths continues to remain partially offset by its 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 and working capital intensive nature of operation.

#### Rating Sensitivities

##### Upward factors

- Sustained revenue growth coupled with improvement in profitability on a sustained basis
- Improvement in leverage ratios
- Growth in cash accrual and prudent working capital management

##### Downward Factors

- Any decline in revenue and profit margin on a sustained basis
- Moderation in the capital structure with overall gearing ratio moderated to over 3x



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- Deterioration in debt protection metrics and Total debt/GCA.

### Detailed Description of Key Rating Drivers

#### Key Rating Strengths

- **Experienced promoters with long track record**

The promoters have long-standing experience in production and selling of Dairy products. Currently, Mr. Rakesh Kumar, director, looks after day-to-day affairs of the company along with other directors, Mr. Rajat Prabhakar and Mr. Rishab Prabhakar, and a team of experienced personnel. All the directors are having vast experience in the same industry. This apart, the company has started operation since 1992 as a partnership firm and incorporated in December 2010, thus enjoying long and proven track record.

- **Strategic location of the plant**

Farmgate's manufacturing facilities are located at Kundil, Sonapat in the state of Haryana and other one is at Mandal, Chittoor in the state of Andhra Pradesh. Both the units are in close proximity to raw material suppliers. Moreover, the plants are well connected through road and rail transport which facilitates easy transportation of raw materials and finished goods. Hence, the plant enjoys competitive advantages in terms of containment of transportation costs and ready market.

- **Adequate milk procurement network spread across Punjab, satisfactory distribution network**

Farmgate procurement matrix is spread across the states of Punjab, Haryana and Andhra Pradesh. Presence of the procurement network which consists of around 15 chilling centers and network of bulk cooling centers proxime to the factory locations 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 company over the years, has established an efficient distributor network covering 200 plus dealers spread across Delhi, Uttar Pradesh, Bengal, Andhra Pradesh, Punjab, Haryana and other parts of India.

- **Continuous growth in scale**

TOI has increased at a CAGR of ~44% during last three financial years ending in FY23 with y-o-y increase of ~55% over FY22, on the back of increase in demand of milk and related



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products after covering from pandemic. Further, Chitoor plant has started utilising its full capacity since FY23, which helps the company to sell higher volume in the year.

- **Moderate financial risk profile**

Financial risk profile of the company has moderated as on March 31, 2023, marked by marginal decline in profitability coupled with slight deterioration in leverage ratios, while there is improvement in debt protection metrics. EBITDA margin has declined in FY23 with fall in selling rate mainly since Q4FY24 coupled with higher carrying cost of inventory and additional selling and distribution cost of additional production from Chitoor unit. PAT margin moved in tandem with EBITDA margin. This apart, with the higher utilisation of bank borrowing to fund the escalated scale of operation, Overall gearing ratio has deteriorated slightly, where overall gearing stood at 1.35x as on March 31, 2023, from 1.28x as on March 31, 2022. Interest coverage ratio, has further improved in FY23 on the back of higher increase in operating profit compared to increase in interest expense.

### Key Rating Weaknesses

- **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 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.



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- **Working capital intensive nature of operation**

The operation of the FAMPL is working capital intensive as the company needs to procure its raw materials i.e. raw milk mostly on advance basis or with minimum credit period and on the other hand has to store finish goods at the end of the year to supply in summer season. The operating cycle of FAMPL stood at 49 days in FY23. The average creditor days elongated to 31 days in FY23 (from 12 days in FY22). The average utilisation of its working capital was high at about 85% during past 12 months ended on November, 2023.

**Analytical Approach:** Standalone

**Applicable Criteria:**

[Rating Methodology for Manufacturing Companies](#)

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

[Criteria for assigning rating outlook](#)

**Liquidity: Adequate**

FAMPL has earned a gross cash accrual of Rs. 21.75 crore in FY23. Further the company is expected to earn a gross cash accrual in the range of ~Rs. 25 to 31 crore as against its debt repayment obligations in the range of ~Rs.0.5 to 9.5 crore per year during FY24-26. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term. Further, average cash credit utilisation of the company remained moderate at ~85% during the past 12 months ended November 2023 indicating a moderately low liquidity cushion

**About the Company**

Farmgate Agro Milch Private Limited (FAMPL) was established in 2010 as a dairy product manufacturing company under the leadership of Mr. Rakesh Kumar. The company have two plants which are located in Kundli, Haryana and Chittoor, Andhra Pradesh. The company is engaged in manufacturing of products like Pasteurized packaged milk, milk powder, dairy whitener, butter, pure ghee, curd, lassi & paneer. The company's marketing network consists of distributors & dealers/sub dealers/retailers in the northern and central states of India. The Company also export a certain portion of their products to various countries such as Bangladesh, Egypt, Madagascar, Yemen, Algeria, Syria, Jordan, Jeddah, Karachi, Lome,



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Mauritania, Kuwait, Dubai and many other countries. The company is promoting its milk products under the brand name of 'Rajat' and 'Dairy Angel' and "Farmgate".

Currently, Mr. Rakesh Kumar, director, looks after day-to-day affairs of the company along with other directors and a team of experienced personnel.

### Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Income	909.89	1407.86
EBITDA	29.58	40.44
PAT	12.91	17.11
Total Debt	126.93	157.24
Tangible Net worth	99.05	116.16
EBITDA Margin (%)	3.25	2.87
PAT Margin (%)	1.42	1.22
Overall Gearing Ratio (x)	1.28	1.35

\*Classification as per Infomerics' standards

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

**Any other information: Nil**

### Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1	Cash Credit	Long Term	146.27	IVR BBB+/ Stable	-	-	-
2	Term Loan	Long Term	21.29	IVR BBB+/ Stable	-	-	-
3	LDS WCL	Long Term	12.42	IVR BBB+/ Stable	-	-	-
4.	Overdraft	Short Term	28.50	IVR A2	-	-	-
5.	Corp. Credit Card	Short Term	0.25	IVR A2	-	-	-





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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.

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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
Cash Credit 1	-	-	-	10.00	IVR BBB+/ Stable
Term Loan 1	-	-	Aug. 2025	2.17	IVR BBB+/ Stable
Cash Credit 2	-	-	-	30.00	IVR BBB+/ Stable
Cash Credit 3	-	-	-	8.00	IVR BBB+/ Stable
Term Loan 2	-	-	May 2025	2.39	IVR BBB+/ Stable
Cash Credit 4	-	-	-	8.27	IVR BBB+/ Stable
LDS WCL	-	-	-	12.42	IVR BBB+/ Stable
Cash Credit 5	-	-	-	40.00	IVR BBB+/ Stable
Cash Credit 6	-	-	-	50.00	IVR BBB+/ Stable
Term Loan 3	-	-	Dec 2024	1.73	IVR BBB+/ Stable
Term Loan 4	-	-	May 2029	15.00	IVR BBB+/ Stable
Overdraft	-	-	-	28.50	IVR A2
Corp. Credit Card	-	-	-	0.25	IVR A2

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

**Annexure 3: Facility wise lender details:**

<https://www.infomerics.com/admin/prfiles/len-Farmgate-jan24.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](http://www.infomerics.com).