



Press Release

Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited

March 28, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	204.70	IVR A / Stable Outlook [IVR A with Stable Outlook]	Assigned	Simple
Short Term Bank Facilities	10.00	IVR A1 [IVR A One]	Assigned	Simple
Total	Rs.214.70 (Rupees Two hundred and fourteen Crore and seventy Lakhs Only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities derives strength from extensive experience of the promoters in the dairy industry, comfortable credit metrics and operating cycle, healthy business relationship with suppliers, favorable dairy industry growth prospects. The rating is however constrained on account of stiff competition from co-operatives, private players and unorganized 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.

Key Rating Sensitivities:

Upward Factors

- Sustained and significant improvement in the scale and enhancing the profitability & debt metrics.
- Optimizing the operating cycle to suitable levels thereby reducing dependence on external borrowings



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Downward Factors

- Any substantial decline in scale and/or profitability
- Stretch in the operating cycle thereby increasing further dependence on the external borrowings ultimately impacting the debt metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the promoters in the dairy industry

The operations of the company are managed by Mr. Vinay Vilasrao Kore, Mr. H.R. Jadhav and Mr. Mohan Yedurkar and has experienced team of professionals to manage the day-to-day operations. Mr. Vinay Vilasrao Kore is the present Chairman of the Society. He was also Ex-Cabinet Minister for Non-Conventional Energy & Horticulture, Government of Maharashtra. He is the third generation managing the dairy business. Mr. H.R. Jadhav is present Vice chairman of Warana Dudh Sangh. He is director from the inception of the society and has taken active part in developing the society. Mr. Mohan Chidambar Yedurkar, is the Managing Director of Milk Union and has successfully implemented various expansion projects for the dairy. The company has varied products namely, including Pasteurised Milk, Toned Milk, Flavour-Enhanced Milk, Double-Toned Milk, Sweetened Condensed Milk, UHT Milk, Yogurt, Ghee, Cheese, Paneer, Skim Milk Powder, Butter Milk, Cream, and Shrikhand with presence in states of Maharashtra, Telangana, Andhra Pradesh, Karnataka, and Goa. The company benefits from the promoters' experience of reaching out to customers over a larger area.

Comfortable credit metrics and operating cycle:

The company's scale of operations improved by 17% y-o-y and stood at Rs. 1092.74 Cr in FY22 on account of improvement in demand in the domestic market and higher order execution. The EBITDA margin stood at 2.42% as compared to last year wherein it stood at 3.74% due to increase in the price of key raw material ~ milk. The PAT margin however improved to 2.68% in FY22 from that of 1.92% in FY21. Overall gearing ratio on net adjusted tangible net worth of the company stood comfortable at 0.53x as of March 31, 2022, has improved marginally from 0.59x in FY21 as a result of overall improvement in capital structure. The Interest Coverage Ratio stood at 1.55x in FY22 as against 1.32x in FY21. DSCR for FY22



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stood comfortable at 2.06x improving from 1.14x in FY21. The operating cycle stood at 68 days in FY22 though improving from previous year which stood at 80 days in FY21.

Healthy business relationship with suppliers

The company have established a healthy business relationship with the farmers in Kolhapur and Sangli region. Currently, approximately 5.87 lakh farmers connected to around 4000 Co-operative societies are supplying milk to the company. More than 450 villages are connected with Warana diary for supply of milk. The company procures around 7 lakh litres per day from its catchment area. It operates through Company shops, Milk booths, distributors and wholesalers. The company has been working for past 5 decades in the market and thereby connecting to the customers through network of 3047 whole sellers and 10219 retailers. (Tie up with 168 D-Marts, 67 Star bazars). Company has its own fleet of vehicle for procurement and distribution. Currently company has more than 250 transportation routes for distribution of milk and milk products.

Favourable dairy industry growth prospects

The Indian dairy industry is expected to continue to grow on the back of steady supply of milk, with India being the world's largest milk producer. Increase in demand for milk and milk products due to rising disposable income and increasing health consciousness are other positive factors.

Key Rating Weaknesses

Stiff competition from co-operatives, private players and unorganized 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 the 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. The company profitability has remained under pressure with EBIDTA margins on an average 3.5% in the past fiscals while the net profit margins have remained around 2% in the past fiscals. Margin expansion will be a key monitorable, going forward.



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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.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria for assigning rating outlook](#)

[Rating Methodology for Manufacturing Companies](#)

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

Liquidity – Adequate

The liquidity position is adequate as reflected from the comfortable current ratio and quick ratio as of 31st March 2022 has been 1.58x and 1.06x respectively. The average utilisation for fund-based working capital facilities stood at ~65% for the past 12 months period ended January-23 and cash and cash equivalents stood at Rs. 69.88 Crore as on 31st March 2022 indicating a comfortable liquidity position.

About the Company

Shree Warana Sahakari Dudh Utpadak Prakriya Sangh Limited (SWS), established in 1968, is a cooperative society. It is engaged in milk processing and production of dairy products. SWS has 7 lac litres per day of milk processing capacity with multi product capabilities. It has one processing unit in Vashi (Navi Mumbai) and two in Kolhapur. The products are sold under the "Warana" brand name. Milk is available in the form of pasteurised milk, toned milk, flavour-enhanced milk, double-toned milk, sweetened condensed milk, UHT milk and also they have yoghurt, ghee, cheese, paneer, skim milk powder, butter milk, cream, and Shrikhand.



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Maharashtra, Telangana, Andhra Pradesh, Karnataka, and Goa are the key states where SWS is present. Moreover, SWS works on projects for Mondelez India Foods Limited, and previously associated with Cadbury India Ltd, which produces cocoa powder and Bourn Vita. Also, it takes Mother Dairy's processing contracts for ice cream.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2021 (Audited)	31-Mar-2022 (Audited)
Total Operating Income	934.65	1092.74
EBITDA	34.97	26.49
Adj. PAT	18.09	29.25
Total Debt	201.00	196.89
Adj. Tangible Net worth	255.40	260.28
EBITDA Margin (%)	3.74	2.42
Adj. PAT Margin (%)	1.93	2.68
Adj. Overall Gearing Ratio (times)	0.79	0.76

*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 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 2020-2021
1.	Long Term Bank Facilities	Long Term	204.70	IVR A / Stable	-	-	-
2.	Short Term Bank Facilities	Short Term	10.00	IVR A1	-	-	-

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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 (Rs. Crore)	Rating Assigned/ Outlook
Long Term – Fund Based – Term Loan	–	–	31 March 2023	0.31	IVR A / Stable
Long Term – Fund Based – Term Loan	–	–	31 January 2027	4.14	IVR A / Stable
Long Term – Fund Based – Term Loan	–	–	31 August 2026	4.38	IVR A / Stable
Long Term – Fund Based – Term Loan	–	–	31 March 2023	0.67	IVR A / Stable
Long Term – Fund Based – Term Loan	–	–	31 March 2023	1.85	IVR A / Stable
Long Term – Fund Based – Term Loan	–	–	31 December 2026	4.89	IVR A / Stable
Long Term – Fund Based – Term Loan	–	–	31 May 2025	4.69	IVR A / Stable
Long Term – Fund Based – Term Loan	–	–	30 April 2031	8.77	IVR A / Stable
Long term Bank Facilities – Cash Credit	–	–	Repayable on demand	175.00*	IVR A / Stable
Short Term Bank Facilities – Bank Guarantee	–	–	–	10.00	IVR A1

*Sub-limit - *Cash Credit – Rs.70.00 crore, Working capital Loan- 105.00 crore

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

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Len-ShreeWarana-mar23.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.