Press Release

Chanakya Dairy Products Private Limited

September 01, 2023

Ratings

Instrument/ Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	194.69 (enhanced from 141.00) (including proposed limit of Rs. 8.00 crore)	IVR BBB/ Stable (IVR Triple B with Stable outlook)	Rating revised from IVR BB+/ Negative Issuer Not Cooperating* (IVR Double B Plus with Negative Outlook Issuer Not Cooperating*) and removed from Issuer Not Cooperating category	Simple
Total	**194.69**			

***Issuer not cooperating; Based on best available information*

Details of Facilities are in Annexure 1

Detailed Rationale

Earlier Infomerics had moved the rating of Chanakya Dairy Products Private Limited (CDPPL) into Issuer Not Cooperating category vide it press release dated April 03, 2023, due to non-submission of information required for detailed review of the company. However, the Company has started cooperating and submitted required information. Consequently, Infomerics has removed the rating from 'ISSUER NOT COOPERATING' category and revised the rating.

The rating assigned to the bank facilities of CDPPL continues to derive comfort from its experienced promoters and established presence in the dairy industry, adequate milk procurement network spread across Punjab, satisfactory distribution network, significant share of value-add dairy products in the revenue profile, continuous growth in scale and moderate financial risk profile. These rating strengths are partially offset by stiff competition from organised co-operatives, private players and unorganised sector pressurizing profitability of dairy companies, 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

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics.

- Improvement in capital structure with improvement in overall gearing to below unity

Downward Factors

- Dip in operating income and/or profitability impacting the debt coverage indicators
- Further deterioration in capital structure with increase in debt

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced Promoters and established presence in the dairy industry

The promoter Mr. Vinod Kumar Dutt has around three decades of experience in the dairy industry. The rich experience of the promoter has helped Chanakya Dairy Products Pvt Ltd maintain healthy relationship with the suppliers. Furthermore the company was incorporated in 2004 and has established operation existence of around 17 years.

Adequate milk procurement network spread across Punjab, satisfactory distribution network

CDPPL's procurement matrix is spread across the states of Punjab, Rajasthan and Haryana. Presence of the procurement network which consists of 8 chilling centers and network of bulk cooling centers which is in proximity to the Punjab, provides location 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 group over the years has established an efficient distributor network covering a large network of dealers and retailers spread across Himachal Pradesh, Punjab, Haryana, and Chandigarh. Going forward, the company plans to expand into the markets of Rajasthan and increase its market penetration in the market.

Significant share of value-add dairy products in the revenue profile though current focus remains on traditional products

The revenue profile remains dominated by milk followed closely by value-add dairy products (61% in FY2021 in CDPPL). Within the dairy products, the revenues in the past have been dominated by traditional products like ghee, paneer, dahi etc. The group though focusses on traditional milk products, it has also initiated new products like flavoured milk, ice cream and UTH milk. For these new products, shelf-life is longer and fetches higher operating margin.

Continuous growth in scale

TOI has increased at a CAGR of ~18% during last three financial years ending in FY23 with y-o-y increase of ~23% over FY22, on the back of increase in demand of milk and related products after covering from pandemic. This apart, introduction of new products like ice cream and UHT milk also helps to increase its turnover in past couple of years. Further, after remain low during last couple of years, average realisation of milk and related products has increased with the increase in demand.

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 deterioration in leverage ratios and lowering of debt protection metrics. EBITDA margin has improved significantly to 11.64% in FY22 over FY21 on the back of lower procurement costs of milk due to excess domestic production. However the same has decreased further in FY23 to 8.64% on account of increase in raw milk price due to spreading of LSD disease in cattle leading to lesser availability of milk with increase in demand resulted in higher procurement costs. This apart, with the introduction of new products like ice cream, selling and distribution costs also increased with the increase of carrying cost and new marketing teram. All these resulted in decrease in profitability in FY23. This apart, with the availment of term loan for past capex program and higher utilisation of bank borrowing to fund the escalated scale of operation, leverage ratios has deteriorated, where overall gearing stood at 2.30x as on March 31, 2023, from 1.97x as on March 31, 2022. Interest coverage ratio, though remained satisfactory, has declined to 3.26x in FY23 with the increase of interest expense and lower operating profit.

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.

Working capital intensive nature of operation

The operation of the CDPPL 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 CDPPL elongated to 72 days in FY23 owing to elongation of inventory days (88 days from 74 days). The company had obtained low credit period to obtain better pricing, reflected in the average creditor days (18 in FY23). The average utilisation of its working capital limit of CDPPL, though remained high at about 92% during the past 12 months ended on June, 2023.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity: Adequate

CDPPL has earned a gross cash accrual of ~Rs.23 crore in FY23. Further the company is expected to earn a gross cash accrual in the range of ~Rs.45-54 crore as against its debt repayment obligations around ~Rs.15-24 crore per year during FY24-26. Accordingly, the liquidity position of the company is expected to remain adequate in the near to medium term.

However, average cash credit utilisation of the company remained high at ~92% during the past 12 months ended June 2023 indicating a sufficient liquidity cushion.

About the Company

Chanakya Dairy Products Private Ltd.(CDPPL) was established 2005 as an Integrated Project in Dairy Business, the company collaborated with Punjab Agro Industries Corporation Ltd. to set up the project at Mandi Gobindgarh, Punjab. The company is engaged in manufacturing of products like Pasteurized packaged milk, milk powder, dairy whitener, butter, pure ghee, curd, lassi & paneer under HF-SUPER Brand. The company's marketing network consists of distributors & dealers/sub dealers/retailers in the States of Himachal Pradesh, Punjab, Chandigarh, and Haryana.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Provisional
Total Income	358.60	442.72
EBITDA	41.74	38.27
PAT	9.22	9.69
Total Debt	155.06	203.34
Tangible Net worth	78.72	88.41
EBITDA Margin (%)	11.64	8.64
PAT Margin (%)	2.57	2.19
Overall Gearing Ratio (x)	1.97	2.30

*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 2023-24** (April 03, 2023)	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22** (March 12, 2022)	**Date(s) & Rating(s) assigned in 2020-21**
1	Term loans	Long Term	99.80	IVR BBB / Stable	IVR BB+/ Negative Issuer Not Cooperating*	-	IVR BBB / Stable	-
2	GECL	Long Term	16.89	IVR BBB / Stable	-	-	-	-
3	Working Capital Demand Loan	Long Term	43.00	IVR BBB / Stable	IVR BB+/ Negative Issuer Not Cooperating*	-	IVR BBB / Stable	-
4	Cash Credit# (including proposed CC 8.00)	Long Term	34.00	IVR BBB / Stable	IVR BB+/ Negative Issuer Not Cooperating*	-	IVR BBB / Stable	-
5	DLOD	Long Term	1.00	IVR BBB / Stable	-	-	-	-

**Issuer not cooperating; Based on best available information*

#Including open cash credit (OCC) of Rs.2.00 crore

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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.

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

For more information visit www.infomerics.com

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
OCC	-	-	-	2.00	IVR BBB/ Stable
WCDL	-	-	-	43.00	IVR BBB/ Stable
GECL Ext.	-	-	Sep-2026	8.71	IVR BBB/ Stable
Term loan 1	-	-	Sep-2025	8.17	IVR BBB/ Stable
Cash Credit	-	-	-	24.00	IVR BBB/ Stable
GECL Ext	-	-	Mar-2028	8.18	IVR BBB/ Stable
Term loan 2	-	-	Apr- 2027	12.29	IVR BBB/ Stable
Term loan 3	-	-	Sep-2026	9.79	IVR BBB/ Stable
Term loan 4	-	-	Sep-2026	14.95	IVR BBB/ Stable
Term loan 5	-	-	Apr- 2027	25.00	IVR BBB/ Stable
Term loan 6	-	-	Mar- 2029	9.74	IVR BBB/ Stable
Term loan 7	-	-	Mar-2029	3.53	IVR BBB/ Stable
DLOD Limit	-	-	July-2027	1.00	IVR BBB/ Stable
Term Loan 8	-	-	July-2027	16.33	IVR BBB/ Stable
Proposed Cash Credit	-	-	-	8.00	IVR BBB/ Stable

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-chanakya-sep23.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.