

Rating Advisory

October 22, 2020 | Mumbai

Advisory as on October 22, 2020

This rating advisory is provided in relation to the rating of Shreedhi Milk and Food Products Private Limited

CRISIL vide its publication dated October 14, 2020 highlighted the aspect of non-co-operation by Shreedhi Milk and Food Products Private Limited

Shreedhi Milk and Food Products Private Limited has now shared the information requested and is cooperative.

You may access the Rating Rationale as appended below.

Rating Rationale

July 23, 2019 | Mumbai

Shreedhi Milk and Food Products Private Limited

'CRISIL BB/Stable' assigned to bank debt

Rating Action

Total Bank Loan Facilities Rated	Rs.7 Crore
Long Term Rating	CRISIL BB/Stable (Assigned)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its '**CRISIL BB/Stable**' rating on the long term bank facility of Shreedhi Milk and Food Products Private Limited (SMFPPL, Pawan Shree Group).

The rating reflects extensive experience of the promoters in dairy products industry, established customer and supplier relationship, increasing revenues and above-average financial risk profile. These strengths are partially offset by exposure to risks related to ongoing project, and susceptibility to volatility in milk prices, changes in government regulations, and epidemics in the dairy industry.

Analytical Approach

For arriving at the ratings, CRISIL has revised its analytical approach, and has now combined the business and financial risk profiles of SMFPPL and Pawan Shree Food International Private Limited. This is because, these entities, together referred as the Pawan Shree Group, have common promoters, are in the same line of business, and have significant operational, managerial and financial linkages. Please refer table 1, which captures the list of entities considered and their analytical treatment of consolidation.

CRISIL has treated unsecured loans of Rs 15.43 crores as on March 31, 2019, extended by the promoters, as neither debt nor equity, since these loans are expected to remain in the business over the medium term.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* **Extensive experience of the promoters in dairy products industry and established relations with customers and suppliers:** The promoters have long standing experience in the dairy industry and have established long relations with suppliers and customers. The group's brand 'Shreedhi' has strong position in Madhya Pradesh. They have established procurement process with tie ups with more than 1000 farmers. The firm also has established relations agents and distributors across multiple states.

* **Diversified product portfolio and increasing revenues:** The group has diversified product portfolio with wholesale milk, milk poly pouches, whole milk powder, skim milk powder and value added products such as shrikhand, rabdi, lassi and butter milk. Backed by increasing capacity, and addition of new products, the group's revenues have grown from Rs. 150 Crores in fiscal 2018 to Rs. 249 Crores in fiscal 2019. This is expected to be sustained with further increase in capacities.

* **Above-average financial risk profile:** Pawan Shree Group has an above-average financial risk profile marked

by

strong net worth of Rs. 33.19 Crores and moderate total outside liabilities to adjusted networth of 2.6 times as on March 31, 2019. Despite debt funded capex, the capital structure is expected to remain at similar levels. Due to moderate debt and operating margins, the debt protection metrics is comfortable with interest coverage at around 3.03 times and net cash accruals to total debt at 0.49 time for fiscal 2019. With increase in revenues and stable operating margins, the debt protection metrics is expected to remain at comfortable levels over the medium term.

Weaknesses:

* **Susceptibility to volatility in milk prices, changes in government regulations, and epidemics in the dairy industry:** The price of raw material (milk) is sensitive to government policies and environmental conditions, which may impact group's profit margin. Raw materials are procured from dairy farmers; which exposes it to the risk of lack of direct control over the milk-production activity. Also, cattle diseases could severely affect the industry.

* **Moderate working capital intensive operations:** The group has moderate working capital requirements as reflected in gross current assets of 130-180 days for past three fiscals. The debtors are moderate at 30 days, while inventory is high at 80-90 days. The group makes payments to farmers on the 3rd, 13th and 30th of every month. Hence, it is highly dependent on bank limits to fund its working capital requirements.

* **Exposure to risks related to ongoing project:** SMFPPL is scheduled to operate full-fledged from July, 2019 onwards. Demand risk is also expected to be moderate as the industry is highly fragmented marked by low entry barriers with small capital and technological requirements. Timely completion and successful stabilization of its operations at the new unit will remain a key rating sensitivity factor.

Liquidity

Pawan Shree Group has adequate liquidity driven by expected cash accruals of Rs.16-20 crores annually in fiscal 2020 and fiscal 2021 and cash and cash equivalents of Rs. 1.08 Crores as on March 31, 2019. Pawan Shree Group's fund based limits have been utilized to the tune of 96% on an average over the 12 months ended March 2019. The group has long term repayment obligations around Rs.1.35 crores and Rs. 0.6 Crores in fiscal 2020 and fiscal 2021, respectively. CRISIL expects internal accruals, cash & cash equivalents and unutilized bank lines to be sufficient to meet its repayment obligations and incremental working capital requirements. Fund support from promoters further supports liquidity.

Outlook: Stable

CRISIL believes that Pawan Shree group will continue to benefit over the medium term from its promoter extensive industry experience. The outlook may be revised to 'Positive' if significant and sustained improvement in revenue and profitability, leads to better financial profile. Conversely, the outlook may be revised to 'Negative' if significantly lower cash accruals, increase in working capital requirements, or large debt funded capital expenditure, weakens its liquidity & financial risk profile.

About the Company

PSFIPL, incorporated in 2012 processes raw milk and manufactures dairy products such as milk powder, butter, ghee and other value added products at its manufacturing unit in Maksi, Indore. The products are sold under its own brand name 'Shreedhi'

SMFPPL, incorporated in 2017, is currently setting up a plant for processing and packaging of milk at Mandwa, Indore. The plant is expected to be commissioned in July, 2019. The group is promoted by Mr Narendra Jain and Mr. Deepak Khandelwal.

Key Financial Indicators

Particulars	Unit	2019	2018
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Operating Income	Rs crore	256.63	150.81
Profit after tax (PAT)	Rs Crore	18.26	4.3
PAT margin	%	7.12	2.85
Adjusted debt/adjusted networkth	Times	1.22	1.46
Interest coverage	Times	3.03	2.07

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of Allotment	Coupon Rate	Maturity Date	Issue Size (Rs Cr.)	Rating Assigned with Outlook
NA	Term Loan	NA	NA	Mar-2027	7	CRISIL BB/Stable

Annexure - List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Pawan Shree Food International Private Limited	Full	Same line of business, and have significant operational, managerial and financial linkages.
Shreedhi Milk and Food Products Private Limited	Full	

Annexure - Rating History for last 3 Years

Instrument	Current			2019 (History)		2018		2017		2016		Start of 2016
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	7.00	CRISIL BB/Stable		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Term Loan	7	CRISIL BB/Stable	--	0	--
Total	7	--	Total	0	--

Links to related criteria

[Criteria for rating entities belonging to homogenous groups](#)

For further information contact:

Media Relations	Analytical Contacts	Customer Service Helpdesk
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Saman Khan
Media Relations
CRISIL Limited
D: +91 22 3342 3895 B:
+91 22 3342 3000
saman.khan@crisil.com

Naireen Ahmed
Media Relations
CRISIL Limited
D: +91 22 3342 1818 B:
+91 22 3342 3000
naireen.ahmed@crisil.com

Vinay Rajani
Media Relations
CRISIL Limited
D: +91 22 3342 1835
M: +91 91 676 42913 B:
+91 22 3342 3000
vinay.rajani@ext-crisil.com

Rahul Guha
Director - CRISIL Ratings **CRISIL Limited**
D:+91 22 4097 8320 rahul.guha@crisil.com

Ankita Gupta
Associate Director - CRISIL Ratings
CRISIL Limited
D:+91 22 4097 8104
ankita.gupta@crisil.com

Chirag Tharwani
Rating Analyst - CRISIL Ratings
CRISIL Limited
B:+91 22 3342 3000
Chirag.Tharwani@crisil.com

Timings: 10.00 am to 7.00 pm
Toll free Number:1800 267 1301

For a copy of Rationales / Rating Reports:
CRISILratingdesk@crisil.com

For Analytical queries:
ratingsinvestordesk@crisil.com

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