

January 27, 2023

S.P.Mani and Mohan Dairy (India) Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	13.50	15.00	[ICRA]BBB- (Stable) reaffirmed
Long-term – Fund-based – Term Loan	13.78	16.37	[ICRA]BBB- (Stable) reaffirmed
Long-term – Unallocated	17.72	13.63	[ICRA]BBB- (Stable) reaffirmed
Total	45.00	45.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of the rating factors in ICRA's expectation that S.P. Mani and Mohan Dairy (India) Private Limited (SPMMDPL) will continue to benefit from the promoters' experience of more than 35 years in the milk industry and the established presence of its brand, Amirthaa, in Tamil Nadu with a robust dealer and distribution network. While the company's revenues improved marginally by 7% in FY2022, its margins declined to 3.4% from 4.6% in FY2021 on the back of higher procurement prices. The company has improved its revenues and maintained margins in H1 FY2023 on account of increased demand and liquidation of skimmed milk powder (SMP) stock. The company's 9M FY2023 revenues stand at ~Rs. 315.0 crore and are expected to close the year in excess of Rs. 400 crore. ICRA notes the company's established procurement base of dairy farmers, supported by a network of bulk coolers and chilling centres, which ensure stable supply of raw milk.

However, the rating remains constrained by the moderate scale of operations, limited geographical diversification and intense competition prevalent in the organised milk segment in the Tamil Nadu market, which restricts its pricing flexibility. The rating factors in the risks arising from vulnerability of the company's scale and profitability to agro-climatic and environmental factors.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in the dairy industry – SPMMDPL's promoters have been associated with the milk industry since 1984 and have been selling milk and milk products under the brand, Amirthaa, which is an established brand in Erode and nearby regions. The extensive experience of the promoters has helped the company establish healthy relationships with suppliers and customers.

Well-established milk procurement base – Over the years, SPMMDPL's business developed into a direct farmer procurement model. They have strong association with farmers and provide them with subsidised cattle feed, free doctors' assistance, timely payments, etc, which ensure adequate supply of raw milk at competitive prices. The company has seven owned chilling centres, with a total chilling capacity of 2.15 lakh litres per day for procurement of raw milk.

Established dealer and distribution network – The company markets its products through a well laid distribution network comprising around 350 distributors and company-appointed sales personnel across all districts in Tamil Nadu. The company's revenue is primarily derived from the B2C segment, especially from the western/ Central Tamil Nadu market. The demand for milk and other value-added dairy products improved post pandemic, which is expected to result in better-than-anticipated revenues and margins for the company in FY2023, thus improving the overall coverage metrics.

Credit challenges

Moderate scale of operations – Although the scale of operations improved in FY2022, the same remains moderate. The company has recorded a revenue of Rs. 315.0 crore in 9M FY2023 (suggesting a 33% YoY improvement). Improved demand and liquidation of SMP stock have resulted in a healthy revenue growth for the company in FY2023. With the ongoing flush season, its revenues are expected to further improve. Moreover, with the cost cutting measures taken in the near term, along with the increased demand for value-added products and entry into newer markets, the scale is expected to improve significantly in the near term.

Vulnerability of earnings to Government regulations and environmental conditions – SPMMDPL’s revenues and earnings are susceptible to various agro-climatic factors such as drought and cattle diseases, which may adversely impact milk production. Further, the margins are susceptible to changes in climatic conditions, with excess supply of milk during the flush seasons, resulting in a decline in SMP prices.

Intense competition in the organised dairy industry – SPMMDPL faces intense competition from the unorganised sector, comprising a staggering 70% of the industry, with further competition from local cooperatives and other private dairies within the organised sector. This has resulted in limited pricing flexibility for the company.

Liquidity position: Adequate

SPMMDPL’s liquidity is adequate with expected cash flows from operations of greater than Rs. 400.0 crore in FY2023 against annual repayment obligation of Rs. 2.0 crore. Further, the company has cash and bank balances to the tune of Rs. 2.9 crore as of August 2022 at a standalone level along with cushion in working capital facilities with a buffer of Rs. 8.2 crore on the same.

Rating sensitivities

Positive factors – ICRA could upgrade SPMMDPL’s rating if the company demonstrates an improvement in its revenues, earnings, working capital cycle and liquidity position. Specific credit metrics that could lead to an upgrade include current ratio above 1.3 times and an interest cover of 5.0 times.

Negative factors – Pressure on SPMMDPL’s rating could arise if the company is unable to reduce its working capital cycle, leading to weakening of its liquidity profile or a contraction in revenues and earnings affect its financial profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

Note (for analyst reference only):

About the company

S.P. Mani & Mohan Dairy India Private Limited manufactures and supplies milk and milk products in southern India, spanning Tamil Nadu, Kerala and parts of Andhra Pradesh. It has an ISO 22000-certified dairy located at Erode (its main dairy). It was incorporated in 2011; however, its promoters have an experience of 35 years in the milk industry.

The company has seven owned chilling centres at Erode, Namakkal, Karur, Palani, Thalaivasal, Mangalapuram and Karumandurai, with a total chilling capacity of 2.15 lakh per day. It has 1,109 village-level milk collection centres and

associations with approximately 13,400 farmers. It has a milk processing capacity of 3.00 lakh litres per day. The company has branch offices in Madurai and Tirunelveli and employs 669 people (including 250 casual employees). SPMMMDPL manufactures and sells its products under the brand, Amirthaa. Its products include milk, curd, butter, ghee, SMP and flavoured milk.

Key financial indicators (audited)

S.P. Mani and Mohan Dairy (India) Private Limited	FY2021	FY2022
Operating income	300.4	321.3
PAT	0.2	0.3
OPBDIT/OI	4.6%	3.4%
PAT/OI	0.1%	0.1%
Total outside liabilities/Tangible net worth (times)	1.5	1.3
Total debt/OPBDIT (times)	2.5	2.4
Interest coverage (times)	2.9	3.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					Jan 27, 2023	Dec 09, 2021	Nov 30, 2020	Dec 02, 2019	Aug 29, 2019
1	Long Term - Fund Based – Cash Credit	Long-term	15.00	9.94	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Long Term - Fund Based – Term Loan	Long-term	16.37	16.37	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
3	Long Term – Unallocated	Long-term	13.63	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Negative)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

&= Under Watch with Developing Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - fund based - Cash Credit	Simple
Long Term - fund based – Term Loan	Simple
Long Term - Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	Oct 2022	8.00%	-	15.00	[ICRA]BBB- (Stable)
NA	Term Loan	May 2020	9.25%	May 2027	2.14	[ICRA]BBB- (Stable)
NA	Term Loan	Oct 2022	8.00%	Oct 2029	5.30	[ICRA]BBB- (Stable)
NA	Term Loan	Aug 2021	10.75%	Aug 2031	8.93	[ICRA]BBB- (Stable)
NA	Long Term - Unallocated	NA	NA	NA	13.63	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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