Manoj PP
Chief Financial Officer Creamline Dairy
"Godrej ONE", 3rd floor
Pirojshanagar, Eastern Express Highway,
Vikhroli (E), Mumbai – 400079, India

June 16, 2023

Dear Sir/Madam,

Re: Rating Letter for NCD of Creamline Dairy Products Limited

India Ratings and Research (Ind-Ra) has rated Creamline Dairy Products Limited's (CDPL) non-convertible debentures (NCDs) as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs#				INR500	IND AA-/Stable	Assigned

#yet to be issued

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It will be important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason India Ratings deems sufficient.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

Dr Devendra Pant
Senior Director

India Ratings & Research
A Fitch Group Company

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India Ratings Assigns Creamline Dairy’s NCDs ‘IND AA-’; Outlook Stable

Jun 16, 2023 | Dairy Products

India Ratings and Research (Ind-Ra) has rated Creamline Dairy Products Limited’s (CDPL) non-convertible debentures (NCDs) as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
NCDs#				INR500	IND AA-/Stable	Assigned

#yet to be issued

ANALYTICAL APPROACH: To assign the rating, Ind-Ra has taken a consolidated view of CDPL and its parent, Godrej Agrovet Limited (GAVL), owing to the strong linkages between them.

Key Rating Drivers

Strong Linkages with Parent: CDPL became a subsidiary of GAVL in FY16, when the latter increased its stake to 51.9% from 26%. CDPL’s board of directors includes the chairman and the managing director of GAVL, and the management control lies with GAVL. CDPL is strategically important for GAVL, as evident from the fact CDPL is one of the leading B2C food venture for the parent and uses the Godrej brand, and thus plays a vital role in widening the brand’s penetration in the consumption segment. Besides, CDPL is a part of the agri-value chain, wherein the parent’s business encompasses feed, crop protection, vegetable oil, dairy and processed food. While CDPL contributed 14%-17% to GAVL’s consolidated revenue over FY20-FY23 (FY23: 15.7%), its EBITDA contribution was subdued (5%-7%) over FY18-FY21, followed by losses in FY22 and FY23, owing to rising input prices. However, the parent believes the potential of the business remains intact and expects it to contribute 10%-12% to the total EBITDA over the long term and has therefore continued to provide financial support as and when needed.

In addition to an equity investment of INR1,600 million, GAVL extended intercorporate deposits of INR250 million to CDPL in FY22 and a further sum of INR500 million in FY23, post which the parent debt accounted for around one-third of CDPL’s total borrowings. The parent stated that further support would be provided if needed. Besides, the parentage also enhances the financial flexibility of CDPL by way of strong access to the capital markets and the banking system, as reflected in the competitive interest rates on its commercial paper and bank borrowings.

Established Market Position of CDPL in Major Southern Cities: CDPL has an established market presence in southern India, with operations in Telangana, Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra. CDPL has a comfortable market position in the dairy products in cities such as Hyderabad, Chennai and Bengaluru under its brand, Godrej jersey, with market share of 10%-15% in pouched milk and curd in Hyderabad and Bengaluru. Hyderabad accounts for the largest portion of CDPL's revenue, with a one-third share in the income.

Strong Business Profile of GAVL, with Leading Market Position in Animal Feed and Domestic Palm Oil: GAVL is a leading player in the domestic organised animal feed industry, with a presence across sub-categories such as cattle, broiler, layer and aqua feed with a pan-India distribution network. The company's consolidated revenue increased to INR93,737 million in FY23 (FY22: INR11,750 million), led by the animal feed and dairy segment. According to the management, the company's share in the animal feed market has increased over the past couple of years. The company is also the largest producer of crude palm oil in India, with a presence across nine states and six facilities across four states for manufacturing of crude palm oil, palm kernel oil and palm kernel cake. The company accounts for around 30% of the domestic production of palm oil with access to around 65,000 hectares of oil palm plantation, almost one-fifth of India's area under oil palm cultivation. The company is likely to commence a 400 tonne-per-day palm oil refinery in FY24, which will enable it to add refined palm oil to the product portfolio. However, the Indian palm oil industry is dominated by imports, which account for over 95% of the domestic consumption. Hence, while GAVL's share is marginal in the overall palm oil consumption, saleability is high.

The company plans to double the acreage over the next five-to-six years by adding 50,000- 60,000 hectares in Telangana and 15,000-20,000 hectares in the northeast region of India, backed by the government's efforts to reduce import dependence in palm oil. The company is also a niche player in agri-inputs such as insecticides, fungicides, soil conditioners, plant growth regulators and herbicides, with a pan India network of around 7,000 distributors. Apart from agrochemicals, the company is also present in the branded food business, including dairy, processed and frozen food. The company has strong brand equity with the established Godrej brand.

Healthy Diversification; Consolidated Profitability to Recover 2HFY24 Onwards: While the business remains susceptible to weather conditions as well as government regulations, GAVL's diversified product portfolio helps the company to reduce the impact of weakness in any one segment on the overall profitability. Animal feed remains the largest revenue contributor, accounting for 45%-50% of the total revenue over the past few years, with the company having a leading position in the industry. Most other segments, except crop protection, have also witnessed robust growth over the past few years. GAVL's consolidated EBITDA margins remained at 7%-9% over FY17-FY22, indicating a stable and diversified profile. While animal feed has been the dominant revenue contributor, it has historically contributed around one-third to the total EBITDA. With rising prices, the palm oil business was the largest EBITDA contributor in FY23 (around 40%), while the crop protection and Astec business accounted for 12%-13% each. The dairy business, which had historically contributed 5%-10% to the total EBITDA, reported losses in FY23, as the company could not pass on the sharp rise in milk prices to its customers. Astec also reported a contraction in margins in FY23, owing mainly to a fall in prices. As a result, the consolidated EBITDA margin fell to 5.6% in FY23 (FY22: 8%). Ind-Ra believes the margins are likely to remain range-bound in FY24, with a recovery likely in 2HFY24.

Consolidated Credit Metrics to Remain Robust: GAVL's net debt (including supplier finance-related acceptances) remained at INR10 billion-15 billion over FY17-FY23, largely driven by working capital borrowings. The net debt reduced to INR13.1 billion in FY23 (FY22: INR15.5 billion), owing to the unwinding of working capital as the company cleaned up its crop protection business when commodity prices softened. Of the total debt, 95% was in the form of working capital borrowings, of which a large part was in the form of commercial paper. The consolidated net leverage (net debt including supplier finance related acceptances/EBITDA) remained at 2x-3x over the past seven years, with the ratio remaining at 2x-2.5x over FY21-FY23. Despite the decline in debt, the consolidated net leverage increased slightly to 2.5x in FY23 (FY22: 2.3x) and the consolidated gross interest coverage (EBITDA/gross interest) fell to 5.3x (10.5x) owing to the fall in its EBITDA (FY23: INR5.2 billion, FY22: INR6.7 billion). The company plans to incur total capex of around INR8 billion over the next couple of years, mainly towards expansion at Astec. Ind-Ra believes the net leverage might increase slightly in FY24 owing to the planned capex coupled with a likely increase in its working capital, but it would improve in FY25 as the EBITDA grows.

Liquidity Indicator - Adequate: CDPL's liquidity is supported by its financial flexibility owing to its strong parentage. On a standalone basis, the company had unused working capital limits of around INR300 million as on 31 March 2023, indicating the availability of some cushion. CDPL is likely to raise INR0.5 billion in the next few months to shore up its liquidity. The company has external debt repayments of INR324 million in FY24 and INR211 million in FY25, and the management has confirmed that the parent would provide support if needed.

The consolidated cash flow from operations turned positive at around INR7 billion in FY23 (FY22: negative INR2.2 billion), led by the unwinding of working capital, particularly in the crop protection business. While the cash flows could moderate as working capital increases, Ind-Ra expects it to remain healthy in the medium term. The free cash flow turned positive at INR2.4 billion in FY23 (FY22: INR5.9 billion) but it could turn negative in FY24 owing to the ongoing capex. However, the consolidated liquidity is supported by the large unused working capital bank lines of over INR5 billion available at end-March 2023 and the funding diversification indicated by the presence of multiple banks and capital market borrowings. At a consolidated level, the company has scheduled debt repayments of around INR1 billion over FY24-FY25, which is likely to be comfortably met through internal accruals. The cash and equivalents remained unchanged at INR0.3 billion at FYE23.

Robust Revenue Growth in CDPL, but Weak Profitability: CDPL had recorded limited growth in revenue until FY22, owing to a steady fall in pouched milk sales. However, during FY23, CDPL's standalone revenue grew 28% yoy to INR 15 billion, led by better realisations as well as volume growth in packed milk segment and value-added products. The improvement in volumes was aided by a recovery in the hospitality, restaurant and catering industry, which had been impacted by pandemic-led disruptions, while realisations improved on account of the price hikes taken to pass on the increase in milk procurement prices. However, the price hikes taken by the industry were insufficient, due to which CDPL reported an operating EBTIDA loss of INR166 million in FY23 (FY22: INR22 million; FY21: INR 324 million). The margins remained at 3-4% during FY18-FY21 but fell to 0.5% in FY22 owing to the increase in milk prices.

However, according to the management, the milk prices have declined in the past few weeks, and this along with the price hikes and cost efficiency measures implemented by the company have helped the company witness positive EBITDA again. Besides, the share of value-added products, which offer higher profitability, has grown over the years, increasing to 32% in FY23 (FY22: 29%). The management plans to increase the share of value-added products to around 50% over the near-to-medium term, which is likely to aid profitability. Ind-Ra expects the company to generate positive EBITDA in FY24 with its margins improving gradually.

Weak Standalone Credit Metrics: CDPL's interest coverage had been strong during FY18-FY21, remaining at 14x-19x, but it fell to 0.3x in FY22, owing to the decline in the EBITDA. With the recovery in EBITDA, Ind-Ra expects CDPL to generate sufficient profits to meet its interest obligations in FY24, though the credit metrics are likely to remain weak.

Rating Sensitivities

Positive: The following events, individually or collectively, could lead to a positive rating action:

- strengthening of linkages with GAVL, driven by a major improvement in the business and financial profile of CDPL
- a significant and sustained improvement in the consolidated business and financial profile of GAVL

Negative: The following events, individually or collectively, could lead to a negative rating action:

- weakening of linkages with GAVL
- a sharp fall in the consolidated profitability and/or higher-than-expected debt levels, resulting in the weakening of consolidated credit profile of GAVL.
- the inability to improve the standalone profitability and credit metrics of CDPL.

Company Profile

CDPL is an established private dairy company with a presence in southern India, having operations in Telangana, Andhra Pradesh, Tamil Nadu, Karnataka and Maharashtra. CDPL's products are sold under the brand name 'Jersey'.

FINANCIAL SUMMARY – STANDALONE CDPL

Particulars	FY23	FY22
Revenue (INR million)	15,011	11,750
EBITDA (INR million)	-166	22
EBITDA margin (%)	-1.1%	0.2%
Gross interest coverage (x)	Negative	0.3
Net leverage (x)	Negative	87.7
Source: Ind-Ra		

FINANCIAL SUMMARY – CONSOLIDATED GAVL

Particulars	FY23	FY22
Revenue (INR billion)	93.7	83
EBITDA (INR billion)	5.2	6.6
EBITDA margin (%)	5.6	8
Gross interest coverage (x)	5.3	10.5
Net leverage (x)	2.5	2.3
Source: Ind-Ra		

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

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Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

Contact

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APPLICABLE CRITERIA

Parent and Subsidiary Rating Linkage

Evaluating Corporate Governance

The Rating Process

Corporate Rating Methodology

To,
Manoj PP
Chief Financial Officer
Creamline Dairy Products Limited
"Godrej ONE", 3rd floor, Pirojshanagar, Eastern Express Highway,
Vikhroli (E), Mumbai – 400079, India

September 22, 2023

Dear Sir/Madam,

Re: Rating Letter for NCD of Creamline Dairy Products Limited

India Ratings and Research (Ind-Ra) has taken the following rating actions on Creamline Dairy Products Limited's (CDPL) non-convertible debentures (NCDs):

Instrument Type	**ISIN**	**Coupon Rate**	**Issuance Date**	**Maturity Date**	**Size of Issue (million)**	**Rating/Outlook**	**Rating Action**
NCDs#	-	-	-	-	INR500	IND AA-/Stable	Assigned
NCDs	INE412L08011	8.65	21 August 2023	21 August 2026	INR500	IND AA-/Stable	Affirmed

#yet to be issued

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please email us at infogrp@indiaratings.co.in

Sincerely,

India Ratings

Rakesh Valecha
Senior Director

Creamline Dairy Products Limited
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CIN: U15201TG1986PLC006912

Date: 13.08.2021

To,
National Stock Exchange of India Limited,
Exchange Plaza, Bandra Kurla Complex,
Bandra (East), Mumbai – 400051

Sub.: Intimation of Credit Rating

Pursuant to Regulation 51 (2) read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and pursuant to Annexure II to SEBI Circular No. SEBI/HO/DDHS/DDHS/CIR/P/2019/115 dated October 22, 2019 ("the Regulations"), this is to inform you that CRISIL Ratings Limited has re-affirmed the rating of CRISIL A1+ (pronounced as CRISIL A one plus) assigned to Commercial Paper programme of Rs. 150 Crore (enhanced from Rs.100 Crore).

Kindly take the same on your records.

Thanking you,

Yours faithfully,

For Creamline Dairy Products Limited

Neha Poojary
Company Secretary
(ACS – 37115)