Delight Dairy Limited: Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	9.25	SMERA BB+/Stable (Assigned)
Proposed	3.00	SMERA BB+/Stable (Assigned)
Bank Guarantee	0.25	SMERA A4+ (Assigned)

SMERA has assigned long term rating of **'SMERA BB+' (read as SMERA double B Plus)** on the Rs.12.25 crore (fund based) and **'SMERA A4+' (read as SMERA A four plus)** on the Rs.0.25 crore (non-fund based) bank facility of Delight Dairy Limited (DDL). The outlook is **'Stable'**.

The ratings draw support from the experienced management and the long track record of operations. The ratings are also strengthened by the established market position and moderate financial risk profile. However, the ratings are constrained by the changes in government regulations and the moderate scale of operations. The ratings also factor in the fragmented and competitive dairy industry and thin profit margins.

The promoters of the company have more than a decades experience in the dairy industry. The company established its first unit in 2000 under the leadership of Mr R K Agarwal in Ranihati region of Howrah (West Bengal) while the second unit was at Indore, Madhya Pradesh in 2007.

DDL sells milk and milk products (skimmed milk powder, butter, ghee etc) under the 'Delight' brand name to state federations in Bihar, Orissa, Assam and Sikkim. The company also processes milk on job work basis for Mahindra & Mahindra through its facility located at MP. The installed capacity stands at 30,000 LPD.

The moderate financial risk profile of the company is marked by moderate gearing, high interest coverage ratio, NCA/TD and moderate debt protection measures. The debt equity stands at 1.81 times and interest coverage at 3.15 times in FY2016 (Provisional). Moreover, Net Cash accruals to Total Debt is at 0.16 times in FY2016 (Provisional) with comfortable net worth of Rs 7.09 crore in FY2016 (Provisional).

However, the profit margins are susceptible to changes in government regulations. The ratings also factor in risk of epidemics. Though the company has long track record of operations, the revenue has increased moderately from Rs.58.41 crore in FY2013 to Rs.71.51 crore in FY2016 (Provisional). DDL also faces competition from established players such as Amul, Metro Dairy among others.

The ratings remain constrained by the thin profit margins. Though the profit margin has improved to 1.28 per cent in FY2016 (Provisional), it has been historically low at 0.19 per cent in FY2015 and 0.16 per cent in FY2014.

Rating Sensitivity Factors

- Improvement in scale of operations and sustenance of profit margins
- Extent of debt funding capex mix

Outlook-Stable

SMERA believes that DDL will maintain a stable outlook over the medium term and benefit from the promoter's extensive experience and established market position in the dairy products industry. The outlook may be revised to 'Positive' if DDL achieves more than envisaged sales and profitability while improving its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve revenue growth and the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

Criteria applied to arrive at the ratings:

- Manufacturing entities

About the Company

DDL, a Kolkata-based company was established by Mr R K Agarwal in 2000 to manufacture pasteurised milk and milk powder (skimmed milk powder, butter and ghee) through its two processing facilities at Howrah and Dewas (Madhya Pradesh).

For FY2014–15, DDL reported profit after tax (PAT) of Rs.0.17 crore on total operating income of Rs.88.68 crore as compared with PAT of Rs.0.14 crore on total operating income of Rs.82.89 crore in FY2013-14.

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ABOUT SMERA

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