

Press Release

Delight Dairy Limited

January 29, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 15.00 Cr. (Enhanced from Rs 12.50 Crore)
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 13.36 crore bank facilities of Delight Dairy Limited (DDL). Acuite has also assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the **1.64 crore** bank facilities of DELIGHT DAIRY LIMITED (DDL). The outlook is '**Stable**'.

Incorporated in 2000, DDL, a Kolkata-based company is engaged in manufacturing of dairy products. The company operates two units, one in Howrah (West Bengal) which processes pouched milk and other milk products such as curd and paneer. The other unit is in Dewas (Madhya Pradesh) which manufactures skimmed milk powder (SMP), butter and ghee. The company was promoted by Mr. R.K. Agarwal and currently, the operations are being managed by second generation entrepreneurs led by Mr. Vivek Agarwal.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of DDL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

The promoters of the company have more than a decade of experience in manufacturing of dairy products. DDL set up their first unit in 2000 in Howrah (West Bengal) while its second unit was set up in Dewas (Madhya Pradesh) in 2007.

- Diversified customer base**

The company benefits from the diversified customer base spread across various states of India. DDL sells pasteurised cow milk through milk tankers to various state federations in Bihar, Odisha, Assam and Sikkim. Further, the company in 2017 has entered into an agreement with Mother Dairy Fruits & Vegetables Private Limited wherein the company purchases milk directly from their approved vendors, process the same and sale the final product to Mother dairy Fruits & Vegetables Private Limited. In addition, the company sells milk pouches and other dairy products under its own brand name 'Delight' sold in the districts of West Bengal.

- Moderate financial risk profile**

The moderate financial risk profile of the company is marked by its moderate net worth, modest gearing and comfortable debt protection metrics. The net worth stood modest at Rs.10.03 crore as on 31 March, 2018 as compare to Rs.9.36 crore a year earlier. The debt to equity stood at 1.85 times as on 31 March, 2018 as against 1.95 times as on 31 March, 2017. Total debt of Rs.16.68 crore consist of long term debt of Rs.2.74 crore (out of which Rs.0.99 crore is from NBFC while Rs.1.75 crore is from bank), Rs.12.55 crore of short term debt (cash credit facility) and Rs.1.39 crore of unsecured loan. The debt protection metrics stood comfortable with interest coverage ratio of 2.45 times in FY2018 as compare to 2.51 times a year earlier. DSCR stood at 2.36 times in FY 2018 as compare to 2.37 times a year earlier. Moreover, NCA/TD stood at 0.13 times in FY2018. Going forward, Acuite expects DDL to maintain its

debt protection metrics and improve its capital structure in the absence of any significant capex plans.

Weaknesses

• Modest scale of operations

Though the company has a long track record of operations, its revenue stood modest at Rs.79.46 crore in FY2018 as against Rs.70.61 crore in FY2017. During FY 2018-19, the company had achieved Rs.58.70 crore till December, 2018 (Provisional).

• Intense competition

DDL is exposed to intense competition from other players in the dairy industry. Hence, the company faces pricing pressure for its milk and value-added products from other dairy players limiting the pricing flexibility and profitability.

Outlook: Stable

Acuite believes that DDL will continue to benefit over the medium term from the promoters' extensive experience and its diversified client base in the dairy products industry. The outlook may be revised to 'Positive' if DDL achieves more than envisaged sales and profitability while achieving improvement in its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve growth in revenue and financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

Liquidity

DDL has moderate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2. to Rs.2.25 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.60 to Rs.0.70 crore over the same period. The cash accruals of the company are estimated to remain around the same level between Rs.2 – 2.50 crore during 2019-21 while its repayment obligation is estimated to be around Rs. 0.70 to Rs.0.80 crore. The company's operations are moderately working capital intensive as marked by gross current asset (GCA) days of 88 in FY 2018 which is marked by almost full utilization of its working capital borrowings, the cash credit limit in the company remains utilized at 96 percent during the last 12 months period ended December 2018. The company maintains unencumbered cash and bank balances of Rs.0.53 crore as on March 31, 2018. The current ratio of the company stands modest at 1.07 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain moderate over the medium term.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	80.52	71.76	70.75
EBITDA	Rs. Cr.	3.50	3.31	2.89
PAT	Rs. Cr.	0.28	0.59	0.94
EBITDA Margin	(%)	4.35	4.61	4.09
PAT Margin	(%)	0.35	0.82	1.33
ROCE	(%)	8.47	10.54	25.13
Total Debt/Tangible Net Worth	Times	1.85	1.95	1.80
PBDIT/Interest	Times	2.45	2.51	3.16
Total Debt/PBDIT	Times	4.14	4.12	3.51
Gross Current Assets (Days)	Days	88	107	91

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Nov-2017	Cash Credit	Long Term	9.25	ACUITE BB+(Indicative)
	Proposed Bank Facility	Long Term	3.00	ACUITE BB+(Indicative)
	Bank Guarantee	Short Term	0.25	ACUITE A4+(Indicative)
27-Oct-2016	Cash Credit	Long Term	INR 9.25	ACUITE BB+ / Stable (Assigned)
	Proposed Bank Facility	Long Term	INR 3	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	INR 0.25	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB+ / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	1.64	ACUITE BB+ / Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	0.06	ACUITE BB+ / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE A4+(Reaffirmed)

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