

Press Release

India Dairy Feeds Private Limited

July 28, 2020



Rating reaffirmed

Total Bank Facilities Rated	Rs. 11.06 crore
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 11.06 crore bank facilities of India Dairy Feeds Private Limited(IDFPL). The outlook is '**Stable**'.

Incorporated in 2006, India Dairy Feeds Private Limited is promoted by Mr. Anirban Nath and Mrs Sushmita Nath. The company is engaged in the manufacturing and packing of cattle feed of different varieties in high-density polyethylene (HDPE) bags or any other packing material as suggested by and Gujarat Co-operative Milk Marketing Federation Limited (GCMMFL), referred to as Anand Milk Union Limited (Amul) Dairy as per the standard formulation for the Amul brand. The company has a manufacturing capacity of 300 metric tons per day (MTPD) located at Bankura, West Bengal.

Analytical Approach

Acuité has considered the standalone business and risk profile of IDFPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

IDFPL is promoted by Mr. Anirban Nath and Mrs. Sushmita Nath having more than a decade of experience in dairy business through its group company which is India Dairy Products Limited (IDPL) and its established association with Amul Dairy since 2004. IDPL commenced operations in 2002 and is the largest contract manufacturer of milk and curd, and the only contract manufacturer of ice cream and sterilized flavoured milk in eastern India for Kaira District Co-operative Milk Producers' Union Limited (KDCMPL); manufacturing arm of Gujarat Cooperative Milk Marketing Federation Limited, referred to as Amul Dairy.

- **Agreement with Amul**

IDFPL had entered into a bipartite agreement with Kaira District Co-operative Milk Producers' Union Limited from August 2016 for a period of 5 years which was converted into a tripartite agreement in December 2018 between IDFPL, Kaira District Co-operative Milk Producers' Union Limited and Gujarat Co-operative Milk Marketing Federation Limited (GCMMFL), referred to as Amul Dairy, for a period of 5 years from December 2018. GCMMFL has a strong marketing network for sales and distribution of Amul dairy products and cattle feed. Amul Dairy will obtain cattle feed of different types produced by IDFPL, packed in HDPE bags or in different pack sizes as decided by Amul Dairy. IDFPL has the exclusive right to manufacture cattle feed for Amul in Eastern India and locations as decided by Amul Dairy.

- **Efficient working capital operations**

The working capital management of the company is efficiently marked by low Gross Current Assets (GCA) of

41 days as on March 31, 2020(Provisional) as compared to 51 days as on March 31, 2019. The debtor period stood comfortable at 8 days as on March 31, 2020(Provisional) as compared to 14 days as on March 31, 2019. Further, the inventory holding is also comfortable at 25 days as on March 31, 2020(Provisional) as compared to 27 days as on March 31, 2019. Amul Dairy prepares their monthly sales plan with details of production/dispatch schedule on a fortnightly or weekly basis and provides a copy of the same to IDFPL to enable the organization to manufacture and supply adequate quantity of cattle feed to Amul Dairy. The company generally maintains inventory days between 20 to 30 days. As a result, the reliance on working capital limits is low, leading to moderate utilisation of its bank limits at an average of 65 per cent over the last six months ended on June 2020. Acuité believes that the working capital operations of the firm will remain comfortable as evident from efficient collection mechanism and low inventory levels over the medium term.

Weaknesses

- **Low profitability margins**

The operating margin stood at 3.04 per cent in FY2020 (Provisional) as against 6.40 per cent in FY2019. The operating margin of the company decreased on account of increase in raw material cost. Similarly, the PAT decreased to 0.41 per cent in FY2020 (Provisional) as against 1.82 per cent in FY2019. The prices of major raw materials such as de-oiled rice bran maize, distiller's dried grain with solubles, mustard oil cake and bajra are highly volatile in nature. The company's ability to maintain its profitability will remain a key concern monitorable.

- **Customer concentration risk**

IDFPL is exposed to customer concentration risk as the company is dependent on Amul Dairy to drive its revenue profile. Acuité believes that any customer concentration risk exposes the entity to risks related to changes in the requirements and policies of the customers. However, this is mitigated from the agreements entered into with their customers, which provides adequate revenue visibility over the medium term.

Rating Sensitivity

- Improvement in profitability margins
- Sustenance of efficient working capital operations

Material Covenants

None

Liquidity Profile: Adequate

The company's liquidity is adequate, marked by moderate net cash accruals of Rs.1.75 crores in FY2020 (Provisional) as against maturing obligation of Rs.0.83 crore over the same period. The net cash accruals are expected to be ranging from Rs.2.13 crores to Rs. 2.67 crores over the medium term. The current ratio stood at 1.12 times as on March 31, 2020(Provisional) as compared to 1.00 times as on March 31, 2019. The bank limit remains utilized at 65 percent over six months ended on June, 2020. The company has not availed any loan moratorium or additional COVID loan. The unencumbered cash and bank balances stood at Rs.1.27 crore as on March 31, 2020(Provisional). Acuité believes that the liquidity of the company will continue to remain adequate, supported by moderate accruals and efficient working capital operations.

Outlook: Stable

Acuité believes that IDFPL will maintain 'Stable' outlook over the medium term from experienced management, the company's association with Amul Dairy and efficient working capital operations. The outlook may be revised to 'Positive' in case the company registers significant improvement in profitability margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected revenue and profitability, leading to affect the accruals and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19(Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	62.79	51.25
PAT	Rs. Cr.	1.14	0.76
PAT Margin	(%)	1.82	1.48
Total Debt/Tangible Net Worth	Times	1.77	1.95
PBDIT/Interest	Times	4.39	4.45

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

Not applicable

Any other information

Not Applicable

Applicable Criteria

- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
10-May-2019	Cash Credit	Long Term	4.13	ACUITE BBB- (Upgraded)
	Term loan	Long Term	5.11	ACUITE BBB- (Upgraded)
	Proposed bank facility	Long Term	1.33	ACUITE BBB- (Upgraded)
	Bank Guarantee	Short Term	0.49	ACUITE A3 (Upgraded)
22-Feb-2018	Cash Credit	Long Term	4.13	ACUITE BB+ (Assigned)
	Term Loan	Long Term	6.44	ACUITE BB+ (Assigned)
	Bank Guarantee	Short Term	0.49	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.) Crore	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.63	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.64	ACUITE BBB-/Stable (Reaffirmed)
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.49	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Pooja Ghosh Head - Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Shubham Ghosh Analyst - Rating Operations Tel: 033-66201212 shubham.ghosh@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.