

Press Release

India Dairy Feeds Private Limited

October 19, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs. 11.06 Cr.
Long Term Rating	ACUITE BBB/Stable (Upgraded)
Short Term Rating	ACUITE A3+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (read as ACUITE triple B) from '**ACUITE BBB-**' (read as ACUITE triple B minus) and the short term rating to '**ACUITE A3+**' (read as ACUITE A three plus) from '**ACUITE A3**' (read as ACUITE A three) to the Rs.11.06 Cr bank facilities of India Dairy Feeds Private Limited. The outlook is 'Stable'.

The upgrade is on account of overall improvement in business risk profile marked by continuous improvement in top line along with improvement in operating profitability margin of the company during the period. The rating upgrade is also factors the overall improvement in financial risk profile of the company marked by improvement in networth, gearing and debt protection metrics during the period.

The rating continues to reflect the extensive experience of the management and the strong association with AMUL. The rating also takes into account the efficient working capital management the company. However, these strengths are partially offset by the customer concentration risk.

About the company

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 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 200 metric tons per day (MTPD) located at Bankura, West Bengal.

Analytical Approach:

Acuité has considered the standalone business and financial risk profile of IDFPL while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management and strong association with AMUL

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. IDFPL has entered into an agreement with Kaira District Co-operative Milk Producers' Union Ltd, referred to as Amul Dairy from December 2018 for a period of 5 years, whereby Amul Dairy (Amul) will obtain cattle feed of different types produced by IDFPL, packed in HDPE bags or in different pack sizes as decided by Amul. IDFPL has the exclusive right to manufacture cattle feed for Amul in Eastern India and places as decided by Amul. In addition the company is also looking after the marketing of the cattle feeds in order to increase its presence outside West Bengal specially Assam, Jharkhand, Bihar etc.

Improving scale of operation coupled with moderate profit margins

The revenue of the company has improved to Rs.91.10 crore in FY2021 (Prov.) as compared to Rs.73.14 crore in the previous year. The company has booked Rs.47.70 crore till September 2021 (Prov.).

The operating profitability margin of the company stood moderate at 5.24 per cent in FY2021 (Prov.) as compared to 3.12 per cent in the previous year. Moreover, the operating profitability margin of the company has improved on account of decrease in raw material price during the period. The net profitability margin of

the company has also improved to 2.28 per cent in FY 2021 (Prov.) as compared to 0.11 per cent in the previous year. Going forward, Acuité believes the profitability margin of the company will increase and sustained at the moderate level over the medium term backed by growing demand for cattle food in the domestic market along with strong association with Amul India.

Efficient working capital management

The working capital management of the company is marked by comfortable gross current asset (GCA) days of 37 days in FY2021 (Prov.) as compared to 40 days in the previous year. The inventory days stood comfortable at 18 days in FY2021 (Prov.) as compared to 24 days in the previous year. The debtor days of the company is also stood comfortable at 02 days in FY2021 (Prov.) as compared to 08 days in the previous year. Acuité believes that the working capital of the company would be maintained at prudent levels over the medium term backed by the efficient debtor's management policy of the promoters.

Weaknesses

Moderate financial risk profile

The financial risk profile of the company is marked by low net worth, comfortable gearing and strong debt protection metrics. The net worth of the company stood low at Rs.6.91 crore in FY 2021 (Prov.) as compared to Rs 4.83 crore in FY2020. This improvement in networth is mainly due to the retention of current year profit. Acuité has considered Rs.1.66 crore as quasi equity as the same amount is subordinated with bank debt. The gearing of the company has stood comfortable at 0.69 times as on March 31, 2021 (Prov.) when compared to 1.33 times as on March 31, 2020. This significant improvement in gearing is on account of decrease in short term debt utilization. Interest coverage ratio (ICR) is strong and stood at 6.37 times in FY2021 (Prov.) as against 4.98 times in FY 2020. The debt service coverage ratio (DSCR) of the company also stood healthy at 2.36 times in FY2021 (Prov.) as compared to 1.61 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.73 times in FY2021 (Prov.) as compared to 0.25 times in the previous year. Going forward, Acuité believes the financial risk profile of the company will remain healthy on account of steady net cash accruals and no major debt funded capex plan over the near term.

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

- Scaling up of operations while maintaining their profitability margin
- Sustenance of their conservative capital structure
- Working capital management

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by moderate net cash accruals of Rs.3.45 crore as against Rs.1.03 crore of long term debt obligation during FY2021(Prov.). The cash accruals of the company are estimated to remain in the range of around Rs. 4.04 crore to Rs. 5.15 crore during 2022-24 as against Rs.1.20 crore in FY2022 and in FY2023 of long term debt obligations. The current ratio of the company stood moderate at 1.23 times in FY2021 (Prov.). The working capital management of the company is marked by comfortable Gross Current Asset (GCA) days of 37 days in FY2021 (Prov.). The bank limit of the company has been ~50 per cent utilized during the last six months ended in September 2021. The company has availed COVID emergency fund of Rs.1.80 crore. The said loan is to be repaid over a period of 4 years including, 1 year of moratorium. Acuité also believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against long debt repayments over the medium term.

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 (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	91.10	73.14
PAT	Rs. Cr.	2.08	0.08
PAT Margin	(%)	2.28	0.11
Total Debt/Tangible Net Worth	Times	0.69	1.33
PBDIT/Interest	Times	6.37	4.98

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

None

Any other information

None

Applicable Criteria

- Default Recognition – <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities – <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments – <https://www.acuite.in/view-rating-criteria-53.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
28-July-2020	Cash Credit	Long Term	5.63	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	4.64	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.30	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.49	ACUITE A3 (Reaffirmed)
10-Mar-2019	Cash Credit	Long Term	4.13	ACUITE BBB-/Stable (Upgraded)
	Term Loan	Long Term	5.11	ACUITE BBB-/Stable (Upgraded)
	Proposed Bank Facility	Long Term	1.33	ACUITE BBB-/Stable (Upgraded)
	Bank Guarantee	Short Term	0.49	ACUITE A3 (Upgraded)
22-Feb-2018	Cash Credit	Long Term	4.13	ACUITE BB+/Stable (Assigned)
	Term Loan	Long Term	6.44	ACUITE BB+/Stable (Assigned)
	Bank Guarantee	Short Term	0.49	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Term Loan	Not Available	8.95%	Dec 2024	4.64	ACUITE BBB/Stable (Upgraded)
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.63	ACUITE BBB/Stable (Upgraded)
State Bank of India	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BBB/Stable (Upgraded)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.49	ACUITE A3+ (Upgraded)

Contacts:

Analytical	Rating Desk
Pooja Ghosh Head- Corporate and Infrastructure Sector Ratings Tel: 033-66201203 pooja.ghosh@acuite.in Abhishek Dey Rating Analyst Tel: 033-66201208 abhishek.dey@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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