

Press Release

Alepa Dairy Foods Private OPC Limited

August 10, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.50 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+** (read as **ACUITE B plus**) on the Rs. 11.50 crore bank facilities of Alepa Dairy Foods Private OPC Limited. The outlook is '**Stable**'.

Incorporated in 2016, Alepa Dairy Foods (OPC) Private Limited (Alepa) is a Bangalore based company engaged in milk production, processing, co-packaging activity and manufacture of value added milk products. The company was promoted by Mr. S Ravikrishna. The promoter has an experience of more than three decades in agriculture sector. The company has been selling milk to Parag Milk Foods who is also using Alepa's milk processing facility on a co-packing basis at pre-determined prices. The company has launched its own milk and curd under two different brands of 'Alepa' for premium bottled milk and 'Atheya' for regular pouch milk and curd in February 2018.

Key Rating Drivers

Strengths

- **Experienced and qualified management**

The company was promoted by S. Ravikrishna. The promoter has an experience of more than three decades in leading companies related to agriculture sector. Further, he was the promoter and Director of Metahelix Life Sciences Limited which was into agriculture biotechnology and same has been sold to Tata Group in 2015. In first phase, Alepa has built dairy processing unit with a backward integration of 100 calves. Further, it has taken up second phase of expansion to add about 150 cows and facilities to process value added milk products of yoghurt, ice cream, flavored milk and ghee. The second phase which is expected to cost about Rs.5.40 crore is expected to be operational by around October 2018. Once operational, the revenues from own processed milk and value added products are expected to be around 40 percent, and rest from co-packaging activity. Acuité believes that continued addition of facilities, and cattle livestock is expected to support in improvement of its business risk profile over the mediumterm.

- **Healthy client profile**

Alepa is currently supplying its milk and does co-packing for Parag Milk Foods Limited. Further, it has got proposals from Godrej Nature's Basket, Good Food and Daily Stores among others for association.

Weaknesses

- **Modest scale of operations**

The scale of operation of Alepa is modest marked by operating income of Rs.0.19 crore for FY2017. Further, the company has recorded operating income of Rs.3.43 crore as on March 31, 2018 (Provisional). Modest revenues are attributed to nascent stage of operations, and milk processing from own cattle to a major extent. Acuité believes that though the revenues are expected to improve to about Rs.10.0-13.0 crore over the medium term, they are modest within the dairy segment.

- **Competitive and fragmented nature of business and weak financial risk profile**

Alepa is exposed to intense competition from organised and unorganised 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. The financial risk profile is weak marked by negative net worth of Rs.1.60 crore (Provisional) as on March 31, 2018. However, it is mitigated to some extent by timely support in the form of unsecured loans by the promoter. As on March 31, 2018, about

Rs.2.80 crore has been infused by the promoter. Though the cash accruals are negative due to nascent stage of operations, the debt servicing is regularly supported by timely infusion of funds. The outstanding debt as on March 31, 2018 of about Rs.6.70 crore includes term debt of Rs.6.30 crore and working capital debt of Rs.0.40 crore. Acuité believes that Alepa's financial risk profile continues to be weak over the medium term owing to second phase of debt-funded capex and modest revenues.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Alepa to arrive at this rating.

Outlook: Stable

Acuité believes that Alepa will maintain a 'Stable' outlook over the medium term supported by experienced management. The outlook may be revised to 'Positive' in case of significant improvement in revenues while improving its cash accruals and capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its financial flexibility or timely support from the management or higher-than-expected time for stabilisation of its operations leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)
Operating Income	Rs. Cr.	0.19
EBITDA	Rs. Cr.	-0.25
PAT	Rs. Cr.	-0.42
EBITDA Margin	(%)	-132.80
PAT Margin	(%)	-225.69
ROCE	(%)	-8.06
Total Debt/Tangible Net Worth	Times	-22.50
PBDIT/Interest	Times	-3.80
Total Debt/PBDIT	Times	-37.33
Gross Current Assets (Days)	Days	1608

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	10.25	ACUITE B+ / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE B+ / Stable

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in Sethu Madhav Analyst - Rating Operations Tel: 022-67141128 sethu.madhav@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings 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.