

Press Release

Alepa Dairy Foods Private OPC Limited

October 03, 2019



Rating Downgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B**' (**read as ACUITE B**) from '**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**'.

The downgrade is in view of lower-than-expected performance and continued incurring of losses at PAT levels. Acuité expects that the timely support from the management in the form of unsecured loans would be critical.

Bangalore-based, ADF was incorporated in 2016 by Mr. S Ravikrishna. ADF is engaged in milk production and its processing, co-packaging activity. The company has launched two different brands, 'Alepa' for premium bottled milk and 'Atheya' regular pouch milk and curd. ADF provides co-packaging facility to Parag Milk Foods.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Technically qualified and experienced management**

The promoter, Mr. S. Ravikrishna, has extensive experience of more than three decades in the agriculture sector. He was the director of Meta-Helix Life Sciences Limited for more than one decade. Mr. S Ravikrishna is graduated from IIM, Ahmedabad. His knowledge base has enabled ADF to successfully ramp up its operations during the start-up phase and establish relationship with reputed market player such as Parag Milk Foods. Acuité believes that the experience of the management is expected to support in improvement of the business risk profile over the medium term.

Weaknesses

- **Below average financial risk profile**

ADF has below average financial risk profile marked by low net worth of negative Rs.4.89 crore as on 31 March, 2019 as against negative Rs.3.26 crore as on 31 March, 2018. This is due to ADF is incurring losses at PAT levels. The gearing stood at negative 3.18 times as on 31 March, 2019 as against negative 4.55 times as on 31 March, 2018. The debt of Rs.15.56 crore as on 31 March, 2019 consists of term loan of Rs.7.76 core, unsecured loans from promoters of Rs.5.58 crore and working capital borrowing of Rs.0.77 crore. ADF has debt obligations of Rs.1.04 in FY2019 and Debt Service Coverage Ratio (DSCR) stood low at 0.31 times for FY2019 against negative 0.76 times for FY2018.

The coverage ratios are subdued marked by Interest Coverage Ratio (ICR) of 0.59 times for FY2019. Further, Net Cash Accruals to Total Debt (NCA/TD) stood at negative 0.03 times in FY2019.

- **Competitive and fragmented industry**

ADF is engaged in the processing of milk and milk products. The particular sector is marked by the presence of several players. The company faces intense competition from other players in the sector.

Liquidity Position: Poor

Liquidity profile of ADF is poor reflected by insufficient net cash accruals against its maturing debt obligations. ADF has reported cash accruals of negative Rs.0.45 crore in FY2019 and expected to generate positive cash accruals in the range of Rs.0.50-1.00 crore over the medium term. The repayment obligations are in the range of Rs.1.45-1.94 crore for the period FY2020-2022. However, the promoter has infused funds of Rs.2.01 crore as on 31 March, 2019 to repay debt obligations. The utilisation of working capital limits remains 50 per cent. The current ratio stood at 0.63 times in FY2019. Acuité believes that the timely infusion of funds into the business would be critical to maintain its liquidity profile.

Rating Sensitivities

- Substantial improvement in scale of operation, while improving profitability margin.
- Deterioration in financial risk profile.

Material Covenants

None

Outlook: Stable

Acuité believes that ADF will maintain a 'Stable' outlook over the medium term on the back of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	5.02	3.22	0.19
EBITDA	Rs. Cr.	0.66	-0.75	-0.25
PAT	Rs. Cr.	-1.63	-2.85	-0.42
EBITDA Margin	(%)	13.07	-23.29	-132.80
PAT Margin	(%)	-32.43	-88.42	-225.69
ROCE	(%)	-4.66	-18.17	-8.06
Total Debt/Tangible Net Worth	Times	-3.18	-4.55	-22.50
PBDIT/Interest	Times	0.59	-0.76	-3.80
Total Debt/PBDIT	Times	23.73	-19.79	-37.33
Gross Current Assets (Days)	Days	113	182	1608

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
10-Aug-2018	Term Loan	Long Term	10.25	ACUITE B+ / Stable (Assigned)
	Secured Overdraft	Long Term	1.25	ACUITE B+ / Stable (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
Term loans	Not Applicable	Not Applicable	Not Applicable	10.25	ACUITE B / Stable (Downgraded from ACUITE B+/ Stable)
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.25	ACUITE B / Stable (Downgraded from ACUITE B+/ Stable)

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About Acuité Ratings & Research:

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