

Press Release

India Dairy Products Limited

December 07, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 25.00 crore bank facilities of India Dairy Products Limited (IDPL). The outlook is '**Stable**'.

IDPL, incorporated in 1993, commenced operations in 2002 as a Kolkata based company that undertakes contract manufacturing of various products for Kaira District Co-operative Milk Producers Union Limited (AMUL). The company is the largest contract manufacturer of AMUL in India and currently processes milk, sterilised flavoured milk, Dahi, lassi, candy ice-cream and cup/bar ice-cream. In addition, the company in 2017-18 has started to process 2 new products in the form of Mishti Doi and Paneer for AMUL. Further, IDPL also manufactures milk, lassi and ghee under its own brand name 'India Dairy'. The day to day affairs of IDPL is managed by Mr. Anirban Nath.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and long association with Amul**

IDPL commenced operations in 2002 and has a long track record of over 15 years in the dairy business. Since 2004, the company is associated with AMUL and currently, IDPL is the largest contract manufacturer of milk and curd, and the only contract manufacturer of ice cream and sterilised flavoured milk for Kaira District Co-operative milk Producers' Union Limited (KDCMPL); manufacturing arm of Gujarat Cooperative Milk Marketing Federation Limited (Amul) in eastern India. The company is strategically important to AMUL being one of the two companies who undertakes contract manufacturing in the eastern parts of India. The strategic importance is further demonstrated with IDPL and AMUL entering in five year agreement with latest being signed on August 2017.

- **Comfortable financial risk profile**

The comfortable financial risk profile of the company is marked by its modest net-worth, healthy debt protection metrics and high gearing. The net worth stood at Rs.12.24 crore as on 31 March, 2018 as compared to Rs.11.61 crore in the previous year. The interest coverage ratio and DSCR stood at 3.69 times and 1.53 times respectively as on 31 March, 2018 as compared to 4.56 times and 1.83 times respectively in the previous year. Total debt of Rs.27.65 crore in FY2018 consist of long term debt of Rs.20.39 crore, Rs.3.91 crore of loans from directors/group companies and Rs.3.36 crore of short term debt (cash credit facility). Debt equity stood at 2.26 times as on 31 March, 2018 as compared to 1.84 times in the previous year. The high debt-equity is on account of continuous capex which the company has to incur in order to meet the demands of AMUL.

- **Prudent working capital cycle**

The working capital cycle is prudent marked by Gross Current Assets (GCA) of 48 days as on 31 March, 2018 as compare to 42 days in the previous year. The company receives payment from AMUL within 15-20 days while inventories are generally kept between 15-20 days due to major raw materials of raw/pasteurized milk being supplied by AMUL which in turn reduces the working capital intensity of IDPL's business. The prudent working capital cycle is further demonstrated by the CC utilisation of ~ 82 percent for the 9 month ended September 2018.

Weaknesses

- **Modest scale of operations**

The scale of operation is modest with operating income at Rs.42.08 crore in FY18 as against Rs.38.76 crore in FY17. During the current year, the company has achieved Rs.24.00 crore till September 2018 (Provisional). The modest scale is due to majority of revenue (81 percent) being in the nature of processing income derived from AMUL, while balance revenue is derived from sale of its own brand dairy products.

- **Decline in operating margins**

The operating margins declined to 17.82 percent in FY2018 from 22.04 percent in FY2016. The dip in operating margins is due to rise in power and fuel cost and non-receipt of GST on milk packaging and processing. The PAT margins also declined in line with the operating margins and stood at 1.50 percent in FY 18 from 3.98 percent in FY 16. Though profitability margins still remain in the comfortable levels, however continuous dip going forward may adversely affect the financial risk profile given the capital intensive nature of business. IDPL had to incur continuous capex to meet the demands of AMUL for its existing and new products.

Outlook: Stable

Acuité believes that the outlook on IDPL rated facilities will remain 'Stable' over the medium term backed by its experienced management and longstanding association with AMUL. The outlook may be revised to 'Positive' in case the company registers more than envisaged sales and profitability while managing its working capital cycle. The outlook may be revised to 'Negative' in case the company fails to achieve envisaged revenue and profitability and its working capital cycle gets stretched or its financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	42.08	38.76	35.08
EBITDA	Rs. Cr.	7.50	7.85	7.73
PAT	Rs. Cr.	0.63	0.90	1.40
EBITDA Margin	(%)	17.82	20.25	22.04
PAT Margin	(%)	1.50	2.32	3.98
ROCE	(%)	8.20	9.83	14.36
Total Debt/Tangible Net Worth	Times	2.26	1.84	1.84
PBDIT/Interest	Times	3.69	4.56	3.97
Total Debt/PBDIT	Times	3.51	2.58	2.37
Gross Current Assets (Days)	Days	48	42	35

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

On 30th Oct'18- India Ratings & Research has migrated the rating of IDPL to IND BBB-/A3 Non-Cooperating category.

On 28th Feb'18- ICRA has migrated the rating of IDPL to ICRA BBB-/A3 Non- Cooperating category.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.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. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB/Stable (Assigned)
Terms Loans	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 ⁺ (Assigned)
Terms Loans	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BBB/Stable (Assigned)

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About Acuite Ratings & Research:

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