

Press Release

India Dairy Products Limited

May 19, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB/Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

The rating of IDPL is driven by the strong association with AMUL and comfortable financial risk profile of the company. The rating also reflects efficient working capital management of the company and an adequate liquidity position during the period. However, these strengths are partially offset by the moderate scale of operation and customer concentration risk.

About the company

IDPL a Kolkata based company was incorporated in 1993 by Mr. Anirban Nath, Mrs. Susmita Nath and Mrs. Vineeta Nath and commenced operations in 2002. The company 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. The company has two manufacturing facility located in Chanditala, Hooghly and in Jayarambati in Bankura district of West Bengal with a combined installed capacity of 5.50 lakhs litres of milk per day, 1.20 lakh bottles of sterilized flavored milk per day, 80 MTPD of Dahi, 20 kilo litres of lassi per day, 35 kilo litres of cup/bar ice-cream, paneer of 4.5 tons per day and cup doi of 5 tons per day. Further, IDPL also manufactures milk, lassi and ghee under its own brand name "India Dairy".

Analytical Approach:

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

Key Rating Drivers:

Strengths

Experienced management and strong association with AMUL

IDPL commenced operations in 2002 and the promoters of the company Mr. Anirban Nath, Mrs. Susmita Nath and Mrs. Vineeta Nath have experience in dairy business for more than 15 years. 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 sterilized flavored milk for Kaira District Cooperative 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 financial risk profile of the company is marked by moderate net worth, high but improving gearing and healthy debt protection metrics. The net worth of the company stood moderate at Rs.13.66 crore in FY 2020 as compared to Rs 12.84 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit. The gearing of the company stood moderate at 1.66 times as on March 31, 2020 when compared to 1.94 times as on March 31, 2019. This improvement in gearing is mainly on account of improvement in networth and repayment of long term debt obligation of the company during the period. Interest coverage ratio (ICR) is comfortable and stood at 3.58 times in FY2020 as against 3.57 times in FY 2019. The debt service coverage ratio (DSCR) of the company also stood moderate at 1.22 times in FY2020 as compared to 1.56 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.26 times in FY2020

as compared to 0.24 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain comfortable on account of steady net cash accruals and no major debt funded capex plan over the near term. Going forward, Acuité believes the financial risk profile of the company will remain at current comfortable levels backed by no major debt funded capital expenditure plan over the medium term along with steady cash accruals.

Efficient working capital management

The efficient working capital management of the company has marked by comfortable GCA days of 33 days in FY2020 as compared to 49 days in FY2019. This improvement in GCA days is on account of overall improvement in debtor days during the period. The debtor days of the company stood comfortable at 12 days in FY2020 as compared to 24 days in the previous year. The inventory holding period of the company also stood comfortable at 15 days in FY2020 as compared to 16 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 scale of operation

The revenue of the company stood moderate at Rs.49.56 crore in FY2020 as compared to Rs.45.90 crore in the previous year. Currently, the company has achieved revenue of Rs.48.37 crore till 31st March 2021 (Prov.). However, this slight deterioration in revenue of the company in current year on account of lower sales during the first quarter of FY2021 due to the outbreak of COVID -19 pandemic and nationwide lockdown.

Customer concentration risk

IDPL is exposed to customer concentration risk as the company is dependent on Amul Dairy to drive its major revenue profile. Further, this customer concentration also leads to lower capacity utilization of own products, which has contributed ~15 per cent of the total revenue in FY2021. 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 operation while maintain their profitability margin
- Deterioration in the capital structure
- Further elongation of working capital

Material Covenant

None

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals of Rs.5.85 crore as against Rs.3.71 long term debt obligation during FY2020. The cash accruals of the company are estimated to remain in the range of around Rs. 6.43 crore to Rs. 8.29 crore during 2021-23 as against Rs.3.71 crore in FY2021, Rs.4.83 crore in FY2022 and in FY2023 of long term debt obligations respectively. The working capital management of the company is marked by comfortable Gross Current Asset (GCA) days of 33 days in FY2020. The bank limit of the company has been ~79 per cent utilized during the last six months ended in March 2021. The current ratio of the company stood low at 0.55 times in FY2020. Moreover, the company has availed the covid emergency fund of Rs. 3.35 crore. The said loan has to be repaid over a period of 4 years including 1 year of moratorium. The company has also availed the loan moratorium till August 2020. Acuité 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 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 (Standalone)

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	49.56	45.90
PAT	Rs. Cr.	0.82	0.60
PAT Margin	(%)	1.65	1.30
Total Debt/Tangible Net Worth	Times	1.66	1.94
PBDIT/Interest	Times	3.58	3.57

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
21-Feb-2020	Overdraft	Long Term	3.00	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	12.50	ACUITE BBB/Stable (Reaffirmed)
	Term Loan	Long Term	7.50	ACUITE BBB/Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A3+ (Reaffirmed)
07-Dec-2018	Overdraft	Long Term	3.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	12.50	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	7.50	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3+ (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
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Nov 2017	7.10%	Mar 2025	12.50	ACUITE BBB/Stable (Reaffirmed)
Term Loan	Oct 2019	4.26%	Mar 2022	7.50	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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