

## Press Release

### India Dairy Products Limited

August 16, 2022

### Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.00	-	ACUITE A3+   Reaffirmed
Bank Loan Ratings	23.00	ACUITE BBB   Negative   Reaffirmed   Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	25.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite 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 revised to '**Negative**' from 'Stable'.

The revision in outlook is primarily due to continuous deterioration in business risk profile of the company marked by dip in operating profitability margin during the last 2 years ended FY'2022 (Prov), while maintaining the revenue at a modest level. Further, this revision in outlook is also on account decline in debt service coverage ratio (DSCR) to 0.93 times in FY2022 (Prov.) as against of 1.28 times in the previous year.

#### Reason for reaffirmation

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 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 one of 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.

##### **Average financial risk profile**

The financial risk profile of the company is marked by modest net worth, moderate gearing and moderate debt protection metrics. The net worth of the company stood modest at Rs.14.61 crore in FY 2022 (Prov.) as compared to Rs 14.36 crore in FY2021. This improvement in networth is mainly due to the retention of profit during FY2022. The gearing of the company stood at 1.36 times as on March 31, 2022 (Prov.) when compared to 1.50 times as on March 31, 2021. Interest coverage ratio (ICR) is healthy and stood at 3.65 times in FY2022 (Prov.) as against 3.95 times in FY2021. The debt service coverage ratio (DSCR) of the company also stood low at 0.93 times in FY2022 (Prov.) as compared to 1.28 times in the previous year. The net cash accruals to total debt (NCA/TD) stood comfortable at 0.22 times in FY2022 (Prov.) as compared to 0.25 remain healthy on account of steady net cash accruals and no major debt funded capex plan over the near term.

##### **Efficient working capital management**

The working capital management of the company is marked by comfortable gross current asset (GCA) days of 46 days in FY2022 (Prov.) and in FY2021 respectively. The inventory holding period of the company stood comfortable at 22 days in FY2022 (Prov.) as compared to 15 days in the previous year. The debtor days of the company stood comfortable at 19 days in FY2022 (Prov.) as compared to 22 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

##### **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 ~10 per cent of the total revenue in FY2022. 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.

##### **Moderate scale of operation coupled with declining profitability**

The revenue of the company stood moderate at Rs.51.19 crore in FY2022 (Prov.) as compared to Rs.48.43 crore. The company has earned Rs.11.88 crore till Q1FY23 (Prov.). Acuité believes that the revenue of the company will increase on account of increasing demand of dairy products in the domestic market.

The operating profitability margin of the company has declined and stood at 10.96 per cent in FY2022 (Prov.) as compared to 12.71 per cent in the previous year. This deterioration is mainly due to impact of COVID-19 led to decrease the business of cold products i.e. curd, ice cream and lassi during the first quarter of FY2021-22 while the fixed cost is remain same in the business. Going forward, Acuité believes that the profitability margin of the company will improve backed by the revision in the manufacturing and packing charges of ice cream with effect from 1<sup>st</sup> April 2022. The net profitability margin of the company dipped significantly to 0.48 per cent in FY2022 as compared to 1.46 per cent in the previous year.

### Rating Sensitivities

- Scaling up operation while maintain their profitability margin
- Deterioration in the capital structure
- Elongation of working capital

### Material covenants

None

### Liquidity Position Adequate

The company has moderate liquidity position marked by comfortable bank limit utilization of ~59 per cent during the last six months ended June 2022. The gross current asset (GCA) days of the company stood comfortable at 46 days in FY2022 (Prov.) and FY2021 respectively. The current ratio of the company stood low at 0.71 times in FY2022 (Prov.). The net cash accruals of Rs.4.31 crore as against only Rs.4.67 long term debt obligations in FY2022 (Prov.). The cash accruals of the company are estimated to remain in the range of around Rs.5.61 crore to Rs. 6.31 crore during 2023-24 as against of Rs.4.67 in FY2023 and Rs.2.81 in FY2024 of long term debt obligations respectively. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate utilization of bank limits along with efficient working capital management.

### Outlook- Negative

Acuité has revised the outlook to 'Negative' on account of continuous deterioration in the business risk profile and the debt service coverage ratio (DSCR) of the company. The outlook may be revised to 'Stable' in case the company registers improvement in its profitability margin while improving the scale of operation, and improvement in financial risk profile of the company. Conversely, the rating will be downgraded in case of significant decline in revenue, profit margins, elongation in the working capital cycle and deterioration in financial risk profile.

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	51.19	48.43
PAT	Rs. Cr.	0.24	0.71
PAT Margin	(%)	0.48	1.46
Total Debt/Tangible Net Worth	Times	1.36	1.50
PBDIT/Interest	Times	3.65	3.95

### 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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 May 2021	Secured Overdraft	Long Term	3.00	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	7.50	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	12.50	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A3+ (Reaffirmed)
21 Feb 2020	Secured Overdraft	Long Term	3.00	ACUITE BBB   Stable (Reaffirmed)
	Term Loan	Long Term	12.50	ACUITE BBB   Stable (Reaffirmed)
	Bank Guarantee	Short Term	2.00	ACUITE A3+ (Reaffirmed)
	Term Loan	Long Term	7.50	ACUITE BBB   Stable (Reaffirmed)
07 Dec 2018	Bank Guarantee	Short Term	2.00	ACUITE A3+ (Assigned)
	Secured Overdraft	Long Term	3.00	ACUITE BBB   Stable (Assigned)
	Term Loan	Long Term	7.50	ACUITE BBB   Stable (Assigned)
	Term Loan	Long Term	12.50	ACUITE BBB   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3+   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB   Negative   Reaffirmed   Stable to Negative
State Bank of India	Not Applicable	Term Loan	31-10-2019	6.65	31-03-2022	7.50	ACUITE BBB   Negative   Reaffirmed   Stable to Negative
State Bank of India	Not Applicable	Term Loan	30-11-2017	6.65	31-03-2025	12.50	ACUITE BBB   Negative   Reaffirmed   Stable to Negative

## Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:pooja.ghosh@acuite.in">pooja.ghosh@acuite.in</a>  Abhishek Dey Senior Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:abhishek.dey@acuite.in">abhishek.dey@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, 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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.