

May 17, 2022

Adya Dairy Products Private Limited: [ICRA]BBB-(Stable)/A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – TL	1.05	[ICRA]BBB- (Stable); Assigned
Long-term/Short-term Fund-based – WC Limits	12.00	[ICRA]BBB- (Stable)/A3; Assigned
Long-term Fund-based– Unallocated	6.95	[ICRA]BBB- (Stable); Assigned
Total	20.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings favourably factor in the strengths derived by Adya Dairy Products Private Limited (ADPPL) as a part of the Shalimar Group as well as the strong managerial and financial support from the Group. This apart, ADPPL has been able to sustain its revenue growth with stabilisation of operations and expansion in its procurement and distribution network in West Bengal. The company is expected to benefit from the favourable long-term demand prospects for the dairy sector particularly in the value added dairy products (VADPs). ADPPL's recent capacity addition for curd and lassi augurs well for its revenue and margin profile.

However, the ratings are constrained by the relatively moderate scale of operations, limited geographical diversification and intense competition in the dairy space in West Bengal, which restricts ADPPL's pricing flexibility. The ratings note the risks arising from the vulnerability of the company's performance to agro-climatic and environmental factors as prevalent in this sector. Moreover, ADPPL's working capital requirements remain elevated owing to high stock holding and debtors, while it receives limited credit from the milk procurement network.

The Stable outlook reflects ICRA's expectation that ADPPL will continue to benefit from the expanding brand presence of Adya and improving contribution from VADPs, favourable demand prospects while continuing to receive support from the Shalimar Group.

Key rating drivers and their description

Credit strengths

Strategically important to the Shalimar Group; strong managerial and financial support - The company is strategically important to the Shalimar Group for its dairy segment operations. Sona Vets Private Limited (rated [ICRA]A(Stable)/[ICRA]A1), part of the Shalimar Group, holds 39% shares in ADPPL and the balance is held by the Group's promoters and their owned entities. Mr. Sameer Agarwal and Mr. Arvind Chokhany, promoter directors of Shalimar Group are also directors in ADPPL and overlooks its operations. ICRA notes that the promoters have supported ADPPL in the form of unsecured loans, part of which have been converted into equity in the past. ADPPL also shares operational linkages with the Shalimar Group vide distribution of Adya's VADPs through the Group's retail outlets – 'Total'. The Group sells cattle feed to dairy farmers under the brand name Adya.

Favourable growth prospects for dairy sector particularly for VADPs - Growing proportion of the urban segment in the country's overall rising population is expected to drive growth for VADPs. Moreover, liquid milk demand is expected to demonstrate stable growth given its essential nature as a part of regular diet. This bodes well for the company's long-term growth prospects.

Improving procurement network and brand presence - ADPPL's procurement network has expanded steadily over the years. At present, there are 12 bulk milk chilling centres with two more centres expected to be operational in FY2023. The company has built a strong distribution network comprising 120 distributors especially across South 24 Parganas, Purba Medinipur and Paschim Medinipur. It also sells products through its app in Kolkata. ADPPL is a contract manufacturer for VADPs of ITC Limited for its 'Aashirward Svasti' brand, which lends further comfort as it demonstrates its operational and technical capabilities.

Sustained revenue growth over the last five years - ADPPL has shown sustained revenue growth during the last five financial years. Its revenues rose to Rs. 82.0 crore in FY2022 (provisional) from Rs. 43.0 crore in FY2018, which is expected to continue in the medium term. In FY2022, its operating margins stood at 7.8%, which was 10.1% in FY2021 owing to increasing procurement prices. ADPPL's leverage stood high at Debt/OPBDITA of 7.0 times and gearing of 2.3 times as on March 31, 2022. However, adjusting for promoter's unsecured loans, the adjusted metrics stood at 4.8 times and 1.6 times, respectively. Growing contribution from VADPs, supported by expanded capacity, recent revision in selling prices and no major debt-funded capex plans in the near to medium term are expected to improve ADPPL's debt coverage metrics going forward.

Credit challenges

Strong competition from large organised co-operatives, private sector and unorganised players - ADPPL faces intense competition particularly in the pouched milk segment from large organised co-operatives, private sector and unorganised players. It has limited pricing flexibility in a competitive scenario as prevalent in regions, where large cooperatives are present. ADPPL faces competition from brands like Amul, Mother Dairy, Red Cow among others.

Vulnerability to external factors such as adverse weather conditions and disease outbreaks - ADPPL's revenues and earnings are susceptible to agro-climatic factors such as drought, cattle diseases, etc, which may adversely impact milk production. Further, the margins are susceptible to changes in climatic conditions, with deficient supply of milk during the flush seasons, resulting in a rise in procurement prices.

Moderate scale of operations limiting bargaining power; regional presence leading to limited scale - The company's scale of operations has remained relatively moderate. Besides the central and southern districts of West Bengal, it has limited presence in the adjoining districts of Bihar and Jharkhand, thus limiting the addressable market and scale of operations.

High inventory holding and debtor period resulting in high limit utilisation - The company's high working capital requirements is attributable to its high inventory and debtors. Stock levels include sizeable packing material apart from finished goods and skimmed or whole milk powder (SMP/WMP). ADPPL's inventory levels remain high in March, which is the peak season for West Bengal. It offers credit to its distributors and has sold SMP to the dairy farmers in the past, which led to higher debtor levels. On the other hand, it does not get any major credit from its procurement network. Consequently, ADPPL's bank limit utilisation has remained high.

Liquidity position: Adequate

While the company has high working capital intensity, which keeps it dependent on bank limits, its repayment obligations for FY2023 remain moderate. Moreover, it is expected to get financial support from the promoter group as and when required.

Rating sensitivities

Positive factors - ICRA could upgrade the company's ratings if it demonstrates an improvement in its revenues, earnings, working capital cycle and liquidity position on a consistent basis. Strengthening of linkages with the Shalimar Group and/or improvement in the Group's credit profile, or Total Debt/OPBDITA less than 3 times, on a sustained basis, may trigger a rating upgrade.

Negative factors - Negative pressure on the ratings may arise if a significant decline in revenues and profitability or any major debt-funded capex weakens the cash flows on a sustained basis. Additionally, weakening in the Shalimar Group's credit profile or ADPPL's linkages with the Group will also be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Implicit support from Parent or group
Parent/Group Support	The ratings assigned to ADPPL factors in the likelihood of the Shalimar Group extending managerial and financial support to it. ADPPL holds high strategic importance for the Shalimar Group's dairy segment operations. ICRA expects the Shalimar Group to be willing to extend financial support to ADPPL to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	The ratings are based on the company's standalone financial profile.

About the company

Incorporated in FY2013, ADPPL is a part of the Kolkata-based Shalimar Group, which has presence across soya extraction and refining, poultry and aqua-feed manufacturing, breeder farming, hatching, broiler farming, chicken processing and layer farming. The Group forayed into the dairy sector through ADPPL. The company is involved in processing of milk, with an integrated dairy plant capable of handling over 1,50,000 litres of milk per day. The milk collected through the chilling centres across villages is processed and packed at the dairy plant, which is in Howrah, West Bengal. Its product portfolio at present includes pasteurised liquid milk in different varieties like toned milk, double toned milk, cow milk and standardised milk. Other products include VADPs like paneer, ghee, dahi, lassi and skimmed milk powder. It distributes its products in and around West Bengal. The products are sold under the brand name Adya.

Key financial indicators (audited)

Adya Dairy Products Private Limited	FY2019	FY2021	FY2022 (Prov.)
Operating Income (Rs. crore)	64.2	69.5	82.0
PAT (Rs. crore)	-0.4	0.5	0.2
OPBDITA/OI (%)	7.7%	10.1%	7.8%
PAT/OI (%)	-0.7%	0.7%	1.0%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.2	2.4
Total Debt/OPBDITA (times)	7.0	5.2	7.0
Interest Coverage (times)	1.5	1.8	2.0

PAT: Profit after Tax; OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)			Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					May 17, 2022	-	-	-
1	Term Loans	Long-term	1.05	1.05	[ICRA]BBB-(Stable)	-	-	-
2	WC Limits	Long-term and short term	12.00	10.70	[ICRA]BBB-(Stable)/A3	-	-	-
3	Fund-based-Unallocated	Long-term	6.95	-	[ICRA]BBB-(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – TL	Simple
Long-term/Short-term Fund-based – WC Limits	Simple
Long-term Fund-based– Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan-I	FY2020	NA	FY2024	0.20	[ICRA]BBB- (Stable)
NA	Term Loan-II	FY2020	NA	FY2024	0.84	[ICRA]BBB- (Stable)
NA	Term Loan-III	FY2020	NA	FY2023	0.01	[ICRA]BBB- (Stable)
NA	WC Limits	-	NA	NA	12.00	[ICRA]BBB- (Stable)/A3
NA	Unallocated	-	NA	NA	6.95	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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Branches



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