

October 25, 2023

Dolphin Foods India Limited: [ICRA]BBB(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	40.00	[ICRA]BBB(Stable); assigned
Long-term Fund-based – Term loan	15.00	[ICRA]BBB(Stable); assigned
Total	55.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Dolphin Foods India Limited (DFIL) considers its established and geographically diversified presence in states across India with a strong and effective distribution channel consisting of direct distributors and super stockist. The rating also considers the healthy revenue growth over the years with revenues of Rs. 178 crore in FY2023 against Rs. 123 crore in FY2019, driven by healthy demand of existing products and successful launch of new products such as wafers and cakes. Besides, a healthy operating margin led to generation of healthy cash accruals of close to Rs.14.3 crore in FY2023. The rating also considers the company's healthy financial profile, characterised by comfortable capital structure and coverage indicators with total debt/TNW of 0.6 times and an interest coverage of 5.6 times as on March 31, 2023. With the expected improvement in earnings and no major debt funded capex planned, debt metrics are likely to improve further over the medium term.

The rating is constrained by DFIL's moderate scale of operations despite the revenue growth expected in the near term, in a very competitive confectionery industry, characterised by low entry barriers, and presence of established and local players. The rating also factors in the exposure of DFIL's margins to raw material price fluctuations (especially fluctuations in sugar and glucose prices), given its limited ability to pass on the rise in prices to end users. ICRA also notes that any outright rejection of its new products would hamper its future growth prospects to an extent.

The Stable outlook reflects ICRA's expectations that DFIL will continue to benefit from its diversified geographical presence with strong distribution network, which along with launch of new products, is expected to drive its revenue growth, going forward.

Key rating drivers and their description

Credit strengths

Established and geographically diversified presence with strong distribution channel – DFIL has an established and geographically diversified presence in states across India with top five states accounting for about 65% of its revenues in the past three years. The company has a strong distribution network consisting of direct distributors and super stockist, which supported its growth in an intensely competitive industry. Moreover, DFIL expanded its presence in exports with participation in trade fairs across the countries, however, exports contributed 8-10% to its revenues. Further, the company has periodically launched new products, which aided its revenue growth in the recent years.

Healthy capital structure and comfortable coverage indicators – The company's financial profile is characterised by a comfortable capital structure (with a gearing of 0.6 times as on March 31, 2013), and coverage indicators (as indicated by an interest coverage of 5.6 times, and Total Debt/OPBDITA of 2.3 times).

Credit challenges

Moderate scale of operations and high raw material price risk – Despite a healthy revenue growth of 22.6% to Rs.178.0 crore in FY2023, DFIL's scale of operations remained moderate. Although it is expected to witness a healthy revenue growth over the medium term, given the proposed launch of new products, it would continue to remain a moderate-sized player in the competitive confectionery industry. Further, sugar and liquid glucose are the major raw materials and the company's margins are exposed to raw material price risk due to its limited ability to pass on the increase in input prices to end users.

Intense competition in the industry – The food processing industry is intensely competitive with low entry barriers and presence of established and local players. However, the same is mitigated to an extent as the company manufactures different products with addition of new products every year as per demand in the market. Nevertheless, any outright rejection of its new planned products, may hamper its future growth prospects to an extent.

Liquidity position: Adequate

DFIL's liquidity position is expected to remain adequate, supported by steady operational cash flow and adequate unutilised lines of credit. Free cash and bank balances and the buffer available in the working capital limits utilised together stood at ~Rs.15 crore as on September 30, 2023. DFIL is also likely to generate fund flow from operation of around Rs.15 crore in the current fiscal against scheduled debt repayment obligations of around Rs.9.5 crore in FY2024.

Rating sensitivities

Positive factors – ICRA could upgrade DFIL's rating if there is a healthy growth in its scale of operations and earnings, leading to a sustained improvement in its debt protection metrics and liquidity position. Key metrics, which could result in a rating upgrade include DSCR improving to more than 1.8 times on a sustained basis.

Negative factors – Pressure on the rating could arise if the company witnesses a revenue drop or if its margins decline consistently. Also, any significant debt-funded capex, which could adversely impact its coverage metrics and liquidity position, could result in a rating downgrade. The rating could be downgraded if the interest coverage remains below 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity.

About the company

Dolphin Foods India Limited (DFIL) was incorporated in 1984. The company manufactures different variants of hard-boiled sugar confectionaries including candies in various flavours, and jelly-based candies and has launched new products including cakes, wafers etc. The company is promoted by Mr. D.S. Jabanami and is now managed by his son, Mr. Arun Dev Sahayam, who is the Managing Director of DFIL. The company sells products under the brand name, OSHON, having presence in rural and semi-urban markets all over India and launched another brand, OTTER, for retail marketing. The installed capacity of the plant is 115 MTPD.

Key financial indicators (audited)

Dolphin Standalone	FY2022	FY2023*
Operating income	145.2	178.0
PAT	1.2	7.9
OPBDIT/OI	5.8%	11.4%
PAT/OI	0.9%	4.5%
Total outside liabilities/Tangible net worth (times)	1.0	0.9
Total debt/OPBDIT (times)	6.0	2.3
Interest coverage (times)	4.2	5.6

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Unsigned Financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore) as on Aug 31, 2023	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 25, 2023	-	-	Oct 07, 2020
1 Cash Credit	Long-term	40.00	-	[ICRA]BBB(Stable)	-	-	[ICRA]BBB (Stable); Withdrawn
2 Term Loan	Long-term	15.00	14.83	[ICRA]BBB(Stable)	-	-	[ICRA]BBB (Stable); Withdrawn

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Long-term fund-based – Term Loan	Simple

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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	40.00	[ICRA]BBB(Stable)
NA	Term Loan	FY2020	NA	FY2027	15.00	[ICRA]BBB(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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Branches



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