

January 29, 2024

Drools Pet Food Private Limited: Ratings reaffirmed and assigned for enhanced limits

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------------|--------------------------------------|-------------------------------------|--|
| Long-term Cash credit | 42.00 | 127.00 | [ICRA]A+ (Stable); reaffirmed/ assigned for enhanced limits |
| Long-term – Fund-based term loans | 0.0 | 35.00 | [ICRA]A+ (Stable); assigned for enhanced limits |
| Short-term Interchangeable limit | (42.00) | (127.00) | [ICRA]A1; reaffirmed/assigned for enhanced limits |
| Total | 42.00 | 162.00 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmed ratings for Drools Pet Food Private Limited (DPFPL) factor in the long experience of the promoters in the pet food industry and the company's status as a part of the Indian Broiler Group (IB Group). ICRA positively considers the company's position as one of the leading players in the Indian pet food industry, backed by its pan-India presence and a strong brand equity built over the years. DPFPL's revenues increased by ~29.5% in FY2023 primarily due to the increase in cat and dog food volumes. However, the company's operating margin declined to 11.7% in FY2023 against 14.8% in FY2022 owing to higher discounts offered and increased employee costs.

The ratings also derive comfort from the financial risk profile of the company, characterised by a conservative capital structure following the recent private equity infusion done by LCA Indus Pte. Ltd in the current fiscal. Though coverage indicators had moderated in FY2023, amid a reduction in profitability, it remained at a comfortable level. The company's TOL/TNW deteriorated to 1.9 times as on March 31, 2023, against 1.1 times as on March 31, 2022, owing to an increase in overall debt levels. Nonetheless, the company has raised Rs. 309.4 crore from LCA Indus Pte. Ltd (a private equity firm) through the issuance of 0.001% compulsorily convertible cumulative preference shares (CCCPS). The first tranche of the investment for Rs. 250.5 crore was infused in July 2023, while the remaining amount is expected to be infused in the second tranche in January/February 2024. The company intends to utilise the proceeds towards funding its capex requirement and reducing its overall borrowings.

The ratings, however, remain constrained by DPFPL's exposure to quality and reputation risks and intense competition from established players in the market. ICRA also notes that the company's profitability remains vulnerable to volatility in key raw material prices.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's opinion that DPFPL will continue to leverage its brand equity to maintain its position as one of the top players in the pet food industry.

Key rating drivers and their description

Credit strengths

Long experience of promoters in the pet food industry; status of being a part of the IB Group – The promoters of DPFPL have been involved in the pet food industry for more than a decade. This has aided the company to expand its scale of operations and geographical footprint gradually over the past decade. Although DPFPL is not dependent materially on Abis Exports (India)

Private Limited (AEIPL; part of the IB group) for its operations at present, the reaffirmed ratings factor in the likelihood of AEIPL extending financial support to it as and when required.

Strong brand equity; pan-India presence with a wide distribution network – Drools is one of the major brands in the domestic pet food industry and enjoys a strong brand recall, supported by endorsements from leading Bollywood celebrities. ICRA notes that the company has been selling goods under the brand Drools for more than a decade now. The company also has other brands such as Purepet, Let's Bite, Meatup, Grain Zero and others. DPFPL has a pan-India footprint with a wide distribution network comprising ~730 distributors and ~7,900 retailers (exclusive pet food shops). Around one-fourth of its revenues are derived from e-commerce platforms. DPFPL has a presence across 35 states and Union Territories in India. Nonetheless, ICRA notes that sales contribution from the top five states stood high at 56% in FY2023 (also 56% in FY2022), providing the company with an opportunity to improve its revenue distribution evenly across the geographies.

Private equity fund raise to aid improvement in coverage and leverage metrics – The company's TOL/TNW deteriorated to 1.9 times as on March 31, 2023 against 1.1 times as on March 31, 2022, owing to an increase in working capital and vehicle loans. Nonetheless, the leverage indicators are expected to improve going forward, aided by the funds raised from private equity (PE) investors. The coverage indicators stood at a comfortable level in FY2023 despite witnessing moderation to an extent. The interest coverage and DSCR stood at 8.7 times and 5.0 times, respectively, in FY2023 against 18.1 times and 13.9 times, respectively, in FY2022. The proceeds from the PE investment are also expected to be used for debt reduction. Consequently, the coverage indicators are likely to improve supported by lower interest costs, going forward.

Credit challenges

Profitability remains susceptible to volatility in raw material prices – Given the competition in the segment in which the company operates, it is not possible to immediately and entirely pass on any cost increase. As a result, DPFPL's operating profitability remains susceptible to volatility in key raw material prices.

Competition from established players – Despite having a well-established position, DPFPL remains exposed to stiff competition from other recognised players in the pet food industry. Further, the threat of new entrants also remains high as the industry is in its nascent stage.

High quality and reputation risks – Quality and reputation risks remain high as the company belongs to the pet food industry. However, stringent quality control measures adopted by the company mitigates this risk to a large extent.

Liquidity position: Adequate

DPFPL's liquidity is expected to remain adequate backed by steady earnings from the business and the cash buffer available post the infusion of funds by PE investors. The cash and liquid investments stood at around Rs. 81.6 crore as on December 31, 2023. While the company has sizeable capex plans in the near term, the second tranche of investments from the PE investors to be infused in the current fiscal and steady earnings would support the entity's liquidity. The company has repayment obligations of ~Rs. 8 crore per year for FY2024 and FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade DPFPL's ratings if there is substantial growth in revenues and profitability, leading to an improvement in the liquidity position on a sustained basis or if there is a significant improvement in the credit profile of AEIPL.

Negative factors – DPFPL's ratings could be downgraded if there is a decline in revenues and earnings, impacting the liquidity profile of the company or if there is a significant weakening in the credit profile of AEIPL. Specific metrics that could lead to a downgrade include TOL/TNW of more than 1.3 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable rating methodologies | Corporate Credit Rating Methodology |
| Parent/Group support | Implicit support from Abis Exports (India) Private Limited (AEIPL, [ICRA]AA- (Stable)/ [ICRA]A1+) |
| Consolidation/Standalone | The ratings are based on the standalone financial statements of DPFPL. |

About the company

DPFPL was incorporated on September 10, 2018, which was a part of AEIPL (a part of the Indian Broiler group) and demerged from the same with effect from October 01, 2021. The company is involved in the manufacturing and marketing of pet food. It has three manufacturing facilities with a total capacity of about 89,400 million tonnes per annum (MTPA). DPFPL has raised capital of Rs. 309.4 crore from LCA Indus Pte. Ltd (a private equity firm) through the issuance of 0.001% CCPS. The first tranche of the investment for Rs. 250.5 crore was infused in July 2023 and the second tranche for Rs.58.9 crore is expected to be infused by January / February 2024.

Key financial indicators (audited)

| | FY2022 (Audited) | FY2023 (Audited) | H1FY2024(Provisional) |
|--|------------------|------------------|-----------------------|
| Operating income (Rs. crore) | 369.0 | 477.6 | 313.1 |
| PAT (Rs. crore) | 35.8 | 27.6 | 16.6 |
| OPBDIT/OI | 14.8% | 11.7% | 10.4% |
| PAT/OI | 9.7% | 5.8% | 5.3% |
| Total outside liabilities/Tangible net worth (times) | 1.1 | 1.9 | 1.0 |
| Total debt/OPBDIT (times) | 0.5 | 2.4 | 3.1 |
| Interest coverage (times) | 18.1 | 8.7 | 8.7 |

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: 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 | Type | Amount rated (Rs. crore) | Amount outstanding as of Dec 31, 2023 (Rs. crore) | Current rating (FY2024) | | Chronology of Rating History for the past 3 years | | | |
|-------------------------|------------|--------------------------|---|-------------------------|-------------------|---|-------------------------|-------------------------|--|
| | | | | Date & rating in FY2024 | | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | |
| | | | | Jan 29, 2024 | Dec 15, 2023 | Sep 29, 2022 | -- | -- | |
| 1 Cash credit | Long term | 127.00 | -- | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | [ICRA]A+ (Stable) | -- | -- | |
| 2 Term loans | Long term | 35.00 | 6.00 | [ICRA]A+ (Stable) | -- | -- | -- | -- | |
| 3 Interchangeable limit | Short term | (127.00) | -- | [ICRA]A1 | [ICRA]A1 | [ICRA]A1 | -- | -- | |

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-----------------------|----------------------|
| Cash credit | Simple |
| Term Loans | Simple |
| Interchangeable limit | 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 |
|------|------------------------------|------------------|-------------|----------|--------------------------|----------------------------|
| -- | Cash Credit | NA | NA | NA | 127.00 | [ICRA]A+ (Stable) |
| -- | Term Loans | FY2024 | NA | FY2031 | 35.00 | [ICRA]A+ (Stable) |
| -- | Interchangeable Limit | NA | NA | NA | (127.00) | [ICRA]A1 |

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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