

October 23, 2024

Dream Pet Private Limited: [ICRA]B+ (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	26.00	[ICRA]B+ (Stable); assigned
Long-term Fund-based – Cash Credit	5.00	[ICRA]B+ (Stable); assigned
Total	31.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to Dream Pet Private Limited (DPPL) favourably factors in the promoters' experience in the beverage industry and DPPL's location-specific advantages as its plants are close to its major revenue contributing customer and steady demand.

The rating is constrained by DPPL's nascent stage of operations, with FY2023 being the first year of operations. The rating is also impacted by the high customer concentration and contract renewal risks, as around 99% of its revenue is derived from a single customer, where the contracts are negotiated annually. Nevertheless, the customer is a related entity and thus provides comfort in revenue visibility. DPPL also faces stiff competition from other established packaged film players, limiting its pricing flexibility as the company supplies at market prices. Further, the rating adversely factors in DPPL's anticipated debt-funded capital expenditure (capex) in the near term, which will weaken its capital structure and debt protection metrics. The company's ability to generate commensurate returns will remain a key rating monitorable.

The Stable outlook reflects ICRA's opinion that the company will witness a steady scale-up of operations on the back of healthy demand for bottled beverages.

Key rating drivers and their description

Credit strengths

Experienced promoters – Mr. Chetanbhai Khanpara has around two decades of experience in the beverages industry. Extensive experience of the promoters in the beverage industry will lend support in establishing strong relationships with customers and suppliers.

Location advantage of plants being in proximity to its largest customer – The company enjoys the benefit of proximity to its key customer, Davat Beverages Private Limited's (DBPL) plant. This enables low freight costs, thus supporting the profitability. The company derived nearly 99% of its revenue from DBPL in FY2024

Credit challenges

Modest scale of operations – ICRA notes the early stage of operations of DPPL, which commenced its operations in FY2023. The company, which is in its second year of operations, reported modest revenues of Rs. 43 crore in FY2024. DPPL's ability to scale up its operations is yet to be demonstrated and would remain a key monitorable for its credit profile. However, regular enhancement of capacities of its key customer on the back of healthy demand of bottled beverages provides comfort to some extent.

High customer concentration – The company’s customer concentration remains high, as a single customer accounts for nearly 99% of the total revenues since the commencement of operations. ICRA, however notes that the risk is mitigated to a large extent as it is a related entity and has annual supply agreements.

Subdued financial profile – DPPL availed term loans of Rs. 26 crore to set up the manufacturing plant at a total capex of Rs. 31 crore, while the balance cost has been funded through promoter’s funds. Given the high debt levels, DPPL’s capital structure remained stretched with a gearing of 3.6 times as on March 31, 2024. Further, due to modest revenues and profits, its debt coverage indicators also remained subdued with an interest cover of 1.5 times and total debt vis-à-vis the operating profit of 8.3 times as on March 31, 2024. ICRA further notes that the company plans to incur additional debt-funded capex, which will lead to elevated debt level over the medium term.

Highly competitive intensity and commoditised nature of products – With the commoditised nature of most of the products with little scope for differentiation, industry players have faced periods of intense competition, resulting in weakening of margins.

Liquidity position: Stretched

DPPL’s liquidity position is stretched, as reflected by its modest cash flows, low cash and bank balance of Rs. 0.04 crore as on March 31, 2024 and limited headroom available in the form of undrawn working capital limits worth Rs. 1.1 crore as on July 31, 2024. Against this, the company has repayment obligations of Rs. 2.7 crore in FY2025 and Rs. 4 crore in FY2026. Further, the company has plans to incur debt-funded capex of Rs. 13-14 crore in the near term, proposed to be funded through debt of ~Rs. 10 crore and the balance through internal accruals of Rs. 4 crore.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a significant improvement in the company’s revenues and profitability, debt protection metrics and liquidity position. Specific credit metric that could lead to a rating upgrade includes total debt vis-à-vis OPBITDA remaining below 5 times on a sustained basis.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue and profitability of the company, leading to a deterioration in debt protection metrics.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Dream Pet Private Limited (DPPL) was incorporated in 2021 by Mr. Chetanbhai Khanpara and Ms. Sonalben Khanpara. The company manufactures preform and shrink-packaging films. The company’s key customer currently includes a related entity, DBPL, which manufactures fruit juices and carbonated soft drinks. DPPL has a manufacturing capacity of 3,650 MTPA of preform unit and 1,095 MTPA of shrink films unit. The manufacturing facility is located at Rajkot, Gujarat.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	14.8	43.1
PAT	0.3	1.5
OPBDIT/OI	5.2%	8.1%
PAT/OI	2.1%	3.6%
Total outside liabilities/Tangible net worth (times)	9.7	3.7
Total debt/OPBDIT (times)	24.3	8.3
Interest coverage (times)	1.0	1.5

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

Current (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Oct 23, 2024	Date	Rating	Date	Rating	Date	Rating
Term Loan	Long Term	26.00	[ICRA]B+ (Stable)	-	-	-	-	-	-
Cash Credit	Long Term	5.00	[ICRA]B+ (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit	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	Term Loan	FY2024	NA	FY2030	26.00	[ICRA]B+ (Stable)
NA	Cash Credit	NA	NA	NA	5.00	[ICRA]B+ (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 - NA

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