

September 29, 2022^(Revised)

Drools Pet Food Private Limited: [ICRA]A+ (Stable)/ [ICRA]A1 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Cash Credit	42.00	[ICRA]A+ (Stable); assigned
Short-term Interchangeable Limit	(42.00)	[ICRA]A1; assigned
Total	42.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings assigned to Drools Pet Food Private Limited (DPFPL) factors in the long experience of the promoters in the pet food business 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. The ratings also derive comfort from the financial risk profile of the company, characterised by strong profitability metrics, conservative capital structure and strong coverage indicators. The company's revenue surged at a CAGR of ~70% between FY2020 and FY2022 as DPFPL was able to leverage its established position amid a growth in the pet adoption rates and increased demand for pet products. The top line is likely to witness a substantial growth in the current fiscal as well.

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 in expanding 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) for its operations at present, the ratings assigned factor in the likelihood of AEIPL extending financial support to it, should there be a need.

Pan-India presence with a wide distribution network – DPFPL has a pan-India footprint with a wide distribution network comprising ~570 distributors and ~6,850 retailers (exclusive pet food shops). Further, it sells via e-commerce platforms and derived around one-fourth of its revenues from the same in FY2022. DPFPL has presence in 35 states/union territories in India. Nonetheless, ICRA notes that sales contribution from the top-five states stood high at 56% in FY2022 (53% in FY2021), providing the company with an opportunity to improve its revenue distribution evenly across the geographies.

Strong brand equity – 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 etc.

Financial risk profile characterised by strong profitability metrics, conservative capital structure and strong coverage indicators

– DPFPL’s capital structure remains conservative, as reflected by a gearing of 0.4 times as on March 31, 2022 (0.6 times as on March 31, 2021), aided by its low reliance on external borrowings. The total debt stood at Rs. 29.5 crore as on March 31, 2022 (provisional) including financial lease obligations of ~Rs. 9.6 crore. The company’s conservative capital structure and healthy profits at an absolute level keep the coverage metrics strong, as reflected by an interest coverage of 17.3 times (8.7 times in FY2021) and TD/OPBDITA of 0.5 times (1.6 times in FY2021) in FY2022. The RoCE also improved to ~50% in FY2022 from ~22% in FY2021 on the back of increased profitability.

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 fully 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 a nascent stage.

High quality and reputation risks – Quality and reputation risks remain high as the company belongs to the pet food industry.

Liquidity position: Adequate

DPFPL generated cash flow from operations worth Rs. 6.5 crore in FY2022 (negative Rs. 10.2 crore in FY2021). The average utilisation of the working capital limit stood at 41% from October 2021 to August 2022, leaving the company with sizeable buffer to meet contingencies. The company’s liquidity is expected to remain adequate in the near term, in view of adequate cash flows from operations and undrawn lines of credit.

Rating sensitivities

Positive factors – ICRA could upgrade DPFPL’s ratings if there is a substantial growth in revenues and profitability, leading to an improvement in the liquidity position on a sustained basis.

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 significant weakening in the credit profile of Abis Exports (India) Private Limited. 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 Rating Approach – Implicit Support from Parent or Group
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

Drools Pet Food Private Limited (DPFPL) was incorporated on September 10, 2018. DPFPL was a part of Abis Exports (India) Private Limited (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 4,800 MT per month. In FY2022, the company derived around three-fourths of its sales from dog food and the major portion of the remaining from cat food.

Key financial indicators

	FY2021 (Audited)	FY2022 (Provisional)
Operating income (Rs. crore)	215.4	369.0
PAT (Rs. crore)	7.9	34.8
OPBDIT/OI	8.4%	14.5%
PAT/OI	3.7%	9.4%
Total outside liabilities/Tangible net worth (times)	1.8	1.1
Total debt/OPBDIT (times)	1.6	0.5
Interest coverage (times)	8.7	17.3

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	Current rating (FY2023)		Chronology of Rating History for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023 Sep 29, 2022	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
1	Cash Credit	Long-term	42.00	--	[ICRA]A+ (Stable)	--	--	--
2	Interchangeable Limit	Short-term	(42.00)	--	[ICRA]A1	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	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	42.00	[ICRA]A+ (Stable)
--	Interchangeable Limit	NA	NA	NA	(42.00)	[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**Corrigendum:**

Rating scale rectified in the summary of rating action table.

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