

February 8, 2017

Zippy Edible Products Private Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Fund Based Limits – Term Loan	14.00	[ICRA]B+; assigned
Fund Based Limits – Cash Credit	2.00	[ICRA]B+; assigned
Total	16.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned a long-term rating of [ICRA]B+(pronounced ICRA B plus) to the Rs. 16 crores of fund based limits of Zippy Edible Products Private Limited (ZEPPL). The outlook on the long term rating is “Stable”.

Rationale

The assigned rating factors in the limited track record of operations with operating income of Rs 14.57 crore in FY16 and capacity utilisation of 55%. The rating is also constrained by weak financial profile characterised by low return indicators and aggressive gearing in FY2016. The rating also takes into account the increase in the total debt of the company from Rs 12.01 crore in FY16 to Rs 19.74 crore (as per the provisional numbers) in FY17 on account of debt funded capex being undertaken by the company during the current fiscal for adding manufacturing capacity of potato pallets and expansion of pasta manufacturing. The rating is also constrained by the operations being dependent on agricultural commodities which expose the company to the risks of agro-climatic conditions along with the limited industry size of present instant noodles segment with organized sector dominating higher market share.

The rating however, favourably factors in the healthy demand prospects for ZEPPL’s products and locational advantages for the company in terms of proximity to raw materials supplies with many wheat mills located in the vicinity. Going forward, the ability of the company to achieve higher capacity utilisation and maintain margins as well as efficiently manage its working capital requirements would be the key rating sensitivities.

Key rating drivers

Credit Strengths

- Location advantage by way of proximity to raw material supplies with wheat mills located in the vicinity
- Steady demand prospects for instant noodles segment owing to changing lifestyle and increase in consumptions of ready to eat meals

Credit Weakness

- Limited track record of operations with operating income of Rs 14.57 crore in FY16
- Capital structure constrained by primarily debt funded nature of project with total term debt of Rs 15.07 crore as on January 2017 (as per the provisional numbers)
- Weak financial profile characterised by aggressive gearing in FY2016 which is further projected to increase in the current fiscal on account of the capex incurred by the company in FY17.
- Operations being dependent on agricultural commodities, exposes the company to the risks of agro-climatic conditions
- High competitive intensity having presence of established players like Bambino, Nestle, ITC



Description of key rating drivers highlighted above:

The company is located in Jaspur, Uttarakhand which has many wheat processing mills in vicinity. The main raw material required by the company Semolina (commonly known as Suji) which is derived by modern milling of wheat into flour. The commercial production commenced from April, 2015 onwards; hence, FY2016 was the first full year of operation for the company. The total installed capacity to produce pasta and Vermicelli is 7920 MTPA. During the first year of operation, the capacity utilization remained moderate at 55%. The company sells its products directly in the local markets in Uttar Pradesh, Uttarakhand and Delhi under its brands "Digraono" and "Dilizia".

The Company is planning to set up a new plant right next to the existing plant. The product profile of the new plant will include potato pallets and pasta. The total installed capacity will be 10,200 MTPA. The raw material required will be semolina and potato scratch and flakes. The total estimated project cost is estimated to be Rs 13.53 crore which will be funded through Rs 8.80 crore of term loans; share capital of Rs 3.85 crore and promoters support of Rs 0.88 crore. The trial runs would commence from March 2017 and commercial production will commence from April 2017.

As per the audited financials for FY16, the company recorded net profit of Rs 0.10 crore on operating income of Rs 14.57 crore.

About the Company:

Zippy Edible Products Private Limited (ZEPP) was incorporated in August 2013 and is engaged in the manufacturing of pasta and Vermicelli in the category of Instant Noodles. The commercial production commenced from April 2015. The unit is located in Jaspur in Uttarakhand and has a total production capacity of 7,920 Metric Tons Per Annum.

The Company is planning to set up a new plant; the building will be constructed on the same land premise as the current plant which is on lease. The product profile of the new plant will include potato pallets and pasta. The total installed capacity will be 10,200 MTPA and the plant is scheduled to commence operations from April, 2017.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month-year & Rating	Month-year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				February 2017	June 2016	March 2015	March 2014
1	Cash Credit	Long-term	14.00	[ICRA]B+ (Stable)	[ICRA]B-; Rating suspended	[ICRA]B-	[ICRA]B-
2	Cash Credit	Long-term	2.00	[ICRA]B+ (Stable)	[ICRA]B-; Rating suspended	[ICRA]B-	[ICRA]B-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	-	-	2020	14.00	[ICRA]B+ (Stable)
Cash Credit	-	-	-	2.00	[ICRA]B+ (Stable)

Source: ZEPPL

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