

April 13, 2017

Asianlak Health Foods Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term – Term Loans	5.20	[ICRA]B+ (Stable); upgraded from [ICRA]B-
Long-term – Cash Credit	4.80	[ICRA]B+ (Stable); upgraded from [ICRA]B-
Total	10.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded its long-term rating on the Rs. 10.00-crore fund-based facilities of Asianlak Health Foods Limited (AHFL)¹ to [ICRA]B+ (pronounced ICRA B plus) from [ICRA]B- (pronounced ICRA B minus). The outlook on the long-term rating is ‘Stable’.

Rationale

The rating upgrade is driven by the steady financial performance of AHFL (top-line grew at a CAGR of ~17% in the last five years) and the improvement in capital structure as reflected in the reduction in the gearing ratio (1.5 times in FY2016 over 1.2 times in FY2015). ICRA also takes note of the improved financial discipline and the regularity in debt repayments. The rating continues to draw comfort from the extensive experience of the promoters in the beverage industry; the revenue visibility by way of association with Bisleri International; AHFL’s long track record of operations, its wide distribution network and established relationships with clients.

However, the rating is constrained by AHFL’s low profit margins because of intense industry competition. The rating also takes into account the seasonal nature of the business and the company’s relatively modest scale of operations. Though improved in FY2016, AHFL’s profitability continues to be low, which coupled with high debt levels has resulted in weak coverage indicators with elevated TD/OPBDITA² and weak NCA/TD³.

Going forward, the ability of the company to improve its margins, scale up its operations and strengthen its coverage indicators will be the key rating sensitivity.

Key rating drivers

Credit strengths

- Long experience of the promoters in the beverages industry;
- Long association with Bisleri International as a franchise partner for Punjab and Haryana provides revenue visibility

¹ For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications.

² TD/OPBDITA-Total Debt/Operating profit Before Depreciation, Interest, tax and Amortization

³ NCA/TD-Net Cash Accruals/total Debt

- Own distribution network in the state of Himachal Pradesh, Jammu & Kashmir, Punjab and Haryana

Credit weaknesses

- Modest liquidity position as reflected in almost full utilisation of working capital facilities
- Strong competition from other established brands such as Aquafina and Kinley
- Demand for soft drinks for which AHFL has already incurred capex would be dependent on advertisement by Bisleri International

Detailed description of key rating drivers:

AHFL packages drinking water, manufactures soda and aerated soft drinks as a franchise partner for Bisleri International from its plant at Ludhiana, in Punjab. The company sells water and soda in the states of Punjab and Haryana. In addition to these states, AHFL sells aerated soft drinks in Jammu & Kashmir and Himachal Pradesh. Starting as a bottling partner for Thums Up, the company's promoters have extensive experience of more than four decades in the beverage industry, by virtue of which AHFL has an established distribution network across Haryana, Punjab, Jammu & Kashmir and Himachal Pradesh. It leverages this network to market its product. AHFL's top-line has grown at a healthy CAGR of ~17% over the last five years.

With small amount of creditors and high inventory and debtor days, the company's operations are working capital intensive, resulting in high dependence on working capital limits. Furthermore, owing to high industry competition, AHFL's margins remain under pressure.

Analytical approach: For arriving at the ratings, ICRA has taken into account the business risk profile of Asianlak Health Foods Limited, financial risk drivers and management profile.

Links to applicable criteria (<http://www.icra.in/RatingMethodology.aspx>)
Corporate Credit Rating – A Note on Methodology

About the company:

Incorporated in 1995 by Mr. Radhe Shyam Poddar, Mr. Gopal Poddar and Mr. Neeraj Poddar, AHFL manufactures packaged drinking water and soda for Bisleri International as a franchise partner in Punjab and Haryana. The company is also a franchise partner for Bisleri's aerated soft drinks in Jammu & Kashmir and Himachal Pradesh, apart from Punjab and Haryana. The company's plant is in Ludhiana (Punjab) and has an installed capacity to process 7,20,000 liters of water per day

The company reported a net profit after tax of Rs. 1.50 crore on an operating income of Rs. 59.67 crore in FY2016, as against a net profit after tax of Rs. 1.39 crore on an operating income of Rs. 56.41 crore in FY2015.

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 (2017)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2014	Date & Rating in FY2013
				March 2017	June 2016		
1	Cash Credit	Long Term	4.80	[ICRA]B+ (Stable)	[ICRA]B-	NA	NA
2	Term Loans	Long Term	5.20	[ICRA]B+ (Stable)	[ICRA]B-	NA	NA

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
Cash Credit	-	-	-	4.80	[ICRA]B+ (Stable)
Term Loans	2015		2021	5.20	[ICRA]B+ (Stable)

Source: AHFL

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