

## Daawat Foods Limited

Instrument	Amount In Crore	Rating action
		As on March 2016
Working Capital Limits	353.90	[ICRA]BBB placed on rating watch with negative implications
Term Loans	31.50	[ICRA]BBB placed on rating watch with negative implications
Unallocated	125.0	[ICRA]BBB placed on rating watch with negative implications
Non Fund Based Limits	7.0	[ICRA]A3+ placed on rating watch with negative implications
Unallocated	3.0	[ICRA]A3+ placed on rating watch with negative implications

ICRA has placed the [ICRA]BBB (pronounced ICRA triple B) and [ICRA]A3+ (pronounced as ICRA A three plus) ratings assigned for Rs. 520.40 crore<sup>1</sup> bank lines of Daawat Foods Limited (DFL)<sup>2</sup> on rating watch with negative implications.

Majority shareholding in DFL is held by LT Foods Limited (LTF)<sup>3</sup>. In assigning the rating, ICRA has taken a consolidated view of the financial and operational profile of LTF along with its other key group companies – DFL, Nature Bio-Foods Limited<sup>4</sup> (NBFL), Raghunath Agro Industries<sup>5</sup> (RAI), Kusha Inc. and SDC Foods India Limited, given the common promoters, strong operational and financial linkage amongst the entities. These are together referred to as LTF Group or ‘the Group’.

The rating watch is on account of anticipated stress on the liquidity of the Group following the repudiation of the insurance claim by the insurer. There was a fire accident in DFL’s Mandideep facility in June 2014 in which paddy stock worth around Rs. 189.0 crore was destroyed, against which the company had availed bank funding of around Rs. 135.0 crore. The company had filed an insurance claim against the same and in the interim met its funding requirements largely through additional working capital debt (secured by insurance claim receivable) and demand loans, which entail a fixed repayment commitment. Following the repudiation of the claim, the repayments/funding gap will now have to be re-financed by the Group. This is likely to impact the Group’s liquidity position in the short to medium term and keep its debt levels elevated. ICRA would continue to monitor the developments in this regard.

The existing ratings of DFL continue to take into account the LT Group’s established operational track record and long experience of the promoters in the basmati rice industry, its well established brand; sizeable scale of operations and its positioning as one of the leading players in the basmati rice industry. The Group has registered steady revenue growth over the years on account of its diversified geographic presence in international market and expanding presence in the domestic market, supported by the Group’s wide distribution network and its established relationships with domestic and export clients.

However, the ratings remain constrained by the high working capital intensity of the business as the industry participants, including the LT Group, are required to maintain sizeable inventory, given the seasonality in availability of basmati paddy (October to December). The inventory requirements are further accentuated by the need to store the rice for a period of time (called ‘ageing’), as this improves the quality of rice and attracts premium pricing. This has resulted in high debt levels for the LT Group, translating into high gearing level and moderate debt protection metrics. In addition, given the low paddy prices in the procurement season of FY15, the average realizations for basmati rice have declined materially in FY16, which can exert pressure on the revenue generation and profitability of the industry participants, including the LT Group. However the impact is cushioned to an extent by the Group’s branded sales. The ratings continue to remain constrained by limited pricing flexibility of the industry owing to its fragmented nature and high competitive intensity; vulnerability of the Group’s profitability to foreign exchange rate volatility given that exports contribute around 50% of the

<sup>1</sup> 1 crore = 10 million = 100 lakh

<sup>2</sup> For complete rating scale and definitions please refer to ICRA’s website [www.icra.in](http://www.icra.in) or other ICRA rating publications

<sup>3</sup> Rated [ICRA]BBB<sup>@</sup>/[ICRA]A3+<sup>@</sup>

<sup>4</sup> Rated [ICRA]BBB<sup>@</sup>/[ICRA]A3+<sup>@</sup>

<sup>5</sup> Rated [ICRA]BBB<sup>@</sup>/[ICRA]A3+<sup>@</sup>

<sup>@</sup> - under rating watch with negative implications

revenue; and exposure to agro climatic risks; and changes in government regulations and trade policies, both in the domestic as well as importing countries.

#### **Company Profile**

Incorporated in 2007, Daawat Foods Limited (DFL) is engaged in the business of milling of basmati rice. DFL was initially a wholly owned subsidiary of LT Foods Limited (LTF). In November 2009, Rabo Equity Advisors acquired 29.5% stake in DFL, resulting in a decline in LTF's share to 70.5%. DFL sells its products under the well established brands of its parent company, LTF. The company's facility is located in Mandideep, Madhya Pradesh.

Incorporated in the year 1990, LT Foods Limited (erstwhile LT overseas Ltd.) is engaged in the business of milling, processing and marketing of basmati rice. LTF has been promoted by three brothers - Mr Vijay Kumar Arora, Mr. Ashwini Arora and Mr. Surinder Arora. The company has established brand presence, both in the domestic and international markets with well known brands including 'Daawat' and 'Heritage'. LTF's manufacturing facilities are located in Haryana and Punjab with a combined milling capacity of 50 tons per hour (TPH). On a consolidated basis, the Group has a milling capacity of around 67 TPH.

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#### **Recent Results**

For FY2015, DFL has achieved an operating income of Rs. 483.7 crore and a net profit of Rs. 13.5 crore. While the Group, has achieved an operating income of Rs. 2734.6 crore and a net profit of Rs. 76.4 crore (on a consolidated basis) in FY2015.

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