

October 06, 2017

Zippy Edible Products Private Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Term Loan	14.00	[ICRA]BB (Stable); upgraded from [ICRA]B+ (Stable)
Fund-based Limits – Cash Credit	2.00	[ICRA]BB (Stable); upgraded from [ICRA]B+ (Stable)
Total	16.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to [ICRA]BB (pronounced ICRA double B) from [ICRA]B+ (pronounced ICRA B plus) on the Rs. 16-crore bank limits of Zippy Edible Products Limited (ZEPPL). The outlook on the long-term rating is Stable.

Rationale

The rating upgrade factors in the stabilisation of ZEPPL's manufacturing plant and achievement of higher than expected capacity utilisation which resulted in YoY growth of ~82% in the operating income of the company in FY2017 (from Rs. 14.57 crore in FY2016 to Rs. 26.49 crore in FY2017). The capacity utilisation of the newly commenced second production line is expected to increase during second half of FY2018 with the expansion of the customer base with increased contribution from the corporate clients. Furthermore, the increase in the per unit realisations of its products also resulted in better than expected profitability. Higher profitability along with infusion of fresh equity of Rs 1.81 crore in FY2017 resulted in improvement in the capital structure as well as the coverage indicators in FY2017.

The rating continues to favourably factor 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. The rating, however, is constrained by the company's high repayment obligations and dependence on agricultural commodities which expose the company to the risks of agro-climatic conditions. The competitive intensity in the industry is likely to remain high with the addition of new capacities in the country.

Going forward, the ability of the company to scale up capacity utilisation while improving the profit margins, efficiently manage the working capital requirements will be the key rating sensitivities. Any major debt funded capex will be the key monitorable.

Key rating drivers

Credit strengths

- **Location advantage by way of proximity to raw material supplies with wheat mills located in the vicinity-** The main raw material required by the company Semolina. The company is located in Jaspur, Uttarakhand with many wheat processing mill are located in vicinity.
- **Favourable demand outlook for the food processing industry-** Change in consumption pattern towards convenience food on back of change in population mix and rising disposable income, better distribution network, innovative marketing strategies and supportive Government policies supports the favourable demand prospects for the industry.
- **Healthy growth in the operating income in FY2017-** Supported by the healthy demand along with the increase in the per unit realisations of its products, the operating income of the company increased by ~82% from Rs. 14.57 crore in FY2016 to Rs. 26.49 crore in FY2017
- **Improvement in the capacity utilisation in FY2017----** Increase in the demand has resulted in higher than expected capacity utilisation in FY2017 at 95% as compared to 65% in FY2016 .The capacity utilisation of the newly commenced second production line is expected to increase during second half of FY2018 with the expansion of the customer base with increased contribution from the corporate clients.

Credit weaknesses

- **Limited track record of operations -** The Company commenced operations from April 2015. The promoters have extensive experience in healthcare as well as the plywood industry. However, they have limited track record of operations in the food processing industry.
- **High competitive intensity having presence of established players-**The Company's brand has limited presence in the Uttarakhand as well as the Uttar Pradesh market and hence faces high competition from the established players in the market. The competitive intensity is likely to remain high with increasing production capacities in the country.
- **Raw material remains vulnerable to agro-climatic conditions - .** The main raw material required by the company Semolina (commonly known as Suji) with the demand for the industry being seasonal in nature. Hence, the company remains exposed to any supply disruption and has limited ability to pass on the price increases

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Rating Methodology](#)

About the firm

ZEPPL was incorporated in August 2013 and is engaged in the manufacturing of pasta and Vermicelli. The commercial production commenced from April 2015. The unit is located in Jaspur in Uttarakhand and has a total production capacity of 18,120 Metric Tons Per Annum. The main raw materials required for manufacturing semolina which is coarse and is derived by purified wheat middlings of durum wheat. The company sells its products directly in the local markets in Uttar Pradesh, Uttarakhand and Delhi under its brands "Digraono" and "Dilizia".

Key financial indicators

	FY2016 Audited	FY2017 Audited
Operating Income (Rs. crore)	14.57	26.49
PAT (Rs. crore)	0.10	2.10
OPBDIT/ OI (%)	17.71%	20.14%
RoCE (%)	5.65%	20.05%
Total Debt/ TNW (times)	3.76	2.28
Total Debt/ OPBDIT (times)	4.64	3.03
Interest Coverage (times)	3.98	10.30
NWC/ OI (%)	9%	3%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years
Table

S. No.	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
					October 2017	February 2017	June 2016	March 2015	
1.	Fund-based Limits-Term Loan	Long Term	14.00	14.00	[ICRA]BB (Stable)	[ICRA]B+ (Stable);	[ICRA]B-; rating suspended	[ICRA]B-	
2.	Fund-based Limits-Cash Credit	Long Term	2.00	2.00	[ICRA]BB (Stable)	[ICRA]B+ (Stable);	[ICRA]B-; rating suspended	[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
Instrument Details

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
	Fund-based Limits-Term Loan			FY2022	14.00	[ICRA]BB (Stable)
	Fund-based Limits-Cash Credit			-	2.00	[ICRA]BB (Stable)

Source: ZEPPL

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