

Zippy Edible Products Private Limited

February 15, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Term Loan	14.00	14.00	[ICRA]BB (Stable); Reaffirmed
Fund based- Working Capital Facilities	2.00	2.00	[ICRA]BB (Stable); Reaffirmed
Total	16.00	16.00	

Rating action

ICRA has reaffirmed the long -term rating at [ICRA]BB (pronounced ICRA double B) for the Rs. 16.00 crore bank lines of Zippy Edible Products Private Limited (ZEPPL). The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation takes into account ZEPPL's higher sales volumes during 9M FY2018 aided by additional production from the additional production line which commenced production in April 2017. Though the capacity utilisation of the new production line remained subdued in the initial months of operations, it is expected to improve in second half of the year. With the addition of corporate customers during the year, the contribution from the institutional segment increased to 28% of the total revenues in 9M FY2018 as compared to 3% in FY2017. As per the provisional numbers, the company has already recorded sales of Rs 23.96 crore during 9M FY2018. Furthermore, with the increase in the scale of operations, the operating profits are expected to increase in FY2018.

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.

Outlook: Stable

ICRA believes ZEPPL will continue to benefit from the location advantage by way of proximity to raw material supplies with wheat mills located in the vicinity coupled with the favourable demand outlook for the food processing industry. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthening the financial risk profile. The outlook may be revised to 'Negative' if cash accruals is lower than expected, or stretch in the working capital cycle, weakens liquidity.

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 is semolina which is derived by milling of wheat into flour. Being located in Jaspur, Uttarakhand with many wheat processing mills are located in vicinity, provides locational advantage to the company.

Healthy growth in the operating income in FY2017 and 9M FY2018- 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. As per the provisional numbers, the company has already recorded sales of Rs 23.96 crore during 9M FY2018.

Increase in the corporate sales- The expansion of the customer base with increased contribution from the corporate clients comprising 28% of the total revenues in 9M FY2018 as compared to only 3% in FY2017.

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.

Credit challenges

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 company

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

	FY 2016 Audited	FY 2017 Audited	9M FY2018 Provisional
Operating Income (Rs. crore)	14.57	26.49	23.96
PAT (Rs. crore)	0.10	2.10	3.75
OPBDIT/ OI (%)	17.71%	20.13%	22.91%
RoCE (%)	5.65%	20.04%	16.74%
Total Debt/ TNW (times)	3.76	2.29	1.11
Total Debt/ OPBDIT (times)	4.64	3.04	2.20
Interest coverage (times)	3.98	10.30	38.04
NWC/ OI (%)	9%	3%	7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

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 FY2018	Date & Rating in FY2017	Date & Rating in FY2017
					February 2018	October 2017	February 2017
1 Fund based-Term Loan	Long Term	14.00	10.18	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]B-; rating suspended
2 Fund based-Working Capital Facilities	Long Term	2.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]B+ (Stable)	[ICRA]B-; rating suspended

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 Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2013	NA	FY2022	14.00	[ICRA]BB (Stable)
NA	Working Capital Limits	NA	NA	-	2.00	[ICRA]BB (Stable)

Source: Zippy Edible Products Private Limited

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