

Namdhari Animal Genetics Private Limited

October 08, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based	19.75	24.75	[ICRA]BB- (Stable); reaffirmed
Unallocated	0.25	0.25	[ICRA]BB- (Stable); reaffirmed
Total	20.00	25.00	

*Instrument details provided in Annexure 1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) assigned to the Rs. 24.75-crore¹ (enhanced from Rs. 19.75-core) fund based facilities and Rs. 0.25-crore non-fund based facilities of Namdhari Animal Genetics Private Limited (Namdhari)². The outlook on the long-term rating is 'Stable'.

Rationale

The rating reaffirmation is constrained by the delay in commencement of operations of the milk processing unit that has impacted the company's performance in FY2018. Given its nascent stage of operations, the company's scale of operations is small, and its financial profile is moderate characterized by net losses and low coverage indicators. The rating also factors in the vulnerability of milk availability to climatic conditions and other external factors. The rating also considers the fragmented nature of the dairy industry characterised by intense competition from established and unorganized players in the Bangalore market.

The rating, however, continues to derive comfort from the management's extensive experience in the agricultural sector for over three decades. The rating also factors in the operational support received by the company, for sales of its products, from its group entity, Namdhari Agro Fresh Private Limited (NAFPL) that has an established presence in Bangalore through its retail outlets. ICRA also notes the periodic and timely equity infusions made by the promoters and their commitment to infuse funds when required, as the company may need financial support until the stabilization of its new facility.

Outlook: Stable

The Stable outlook reflects the comfort derived from vast experience of the management in the food segment and the established brand presence of the group. The outlook may be revised to Positive if there is a substantial growth in revenue and profitability of the company, leading to improvement in its coverage indicators. The outlook may be revised to Negative if the cash accruals are lower than expected, or if there is a significant stretch in the company's liquidity position.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Long standing presence of the Namdhari Group in food related business – The management of the company has extensive experience of more than three decades in the food industry. The flagship entity in the group, Namdhari Seeds Private Limited, was established in 1985 and is primarily involved in exports of fruits and vegetable seeds.

Established network of Namdhari Agro Fresh Private Limited - The established retail presence of NAFPL, another group entity, with around 25 retail outlets across Bangalore is expected to facilitate the initial branding and sales of the company's newly launched products. Established in 2005, NAFPL is involved in retailing of fruits, vegetables and other groceries. As on date, majority of the revenue of NAPL is received through sales generated from NAFPL's outlets.

Credit challenges

Small scale of operations and moderate financial profile – Even though the company was established in 2012, the scale of operations remains modest as the initial focus was on only developing the dairy farm. The expected commencement of the milk processing unit in Q3FY2017 got delayed limiting the growth in revenues. The debt coverage indicators of the company are expected to remain stretched in the near term given the high interest expenses and scheduled term loan repayments. Timely infusion of funds by the promoters would remain crucial to meet the debt obligations on time. As NAPL gradually diversifies into more value-added products, its scale and profitability is expected to improve.

Vulnerability of milk availability to external factors - The milk production is vulnerable to external factors such as climatic conditions with drop in production witnessed during summer, and factors like cattle diseases. The low switching costs for farmers to other manufacturers, perishable nature of the product and intense competition among dairy processors pose threat on availability of raw milk. The company plans to launch various social welfare activities for farmers to develop healthy relationships and ensure enough availability of the raw milk.

Significant competition from established dairy players in Bangalore – The Bangalore dairy market has many prominent players such as Nandini, Heritage, Tirumala etc. Their established presence, combined with the plethora of unorganised players in the market, results in intense competition in the segment.

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:

Namdhari Animal Genetics Private Limited (NAPL) was incorporated in June 2012 in Uragehalli in Bangalore, Karnataka with an objective to set up an integrated dairy farm spread across an area of 14 acres. Having started with a herd size of 80 cows, the company has almost 1,500 cows as on date. It has an in-house milk production capacity of around 7,000 litres per day (LPD) as on date which is expected to reach around 10,000 LPD shortly. The company has commenced operations of its newly established milk processing unit that has a processing capacity of 50,000 LPD to manufacture various dairy related products. It plans to increase the herd size going forward and procure milk from farmers and agents in the area to meet its requirements.

Key Financial Indicators

	FY 2017	FY 2018*
Operating Income (Rs. crore)	5.6	7.7
PAT (Rs. crore)	-0.1	-0.3
OPBDIT/ OI (%)	6.4%	9.7%
RoCE (%)	-0.2%	-0.8%
Total Debt/ TNW (times)	0.2	1.0
Total Debt/ OPBDIT (times)	9.3	23.0
Interest coverage (times)	16.1	6.3

* Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2019)			Chronology of Rating History for the past 3 years		
		Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2018 (Rs Crore)	Date & Rating October 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017	Date & Rating in FY2016
1 Cash Credit	Long Term	5.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
2 Term Loan	Long Term	19.75	14.99	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-
3 Unallocated	Long Term	0.25	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	-	-

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	Cash Credit	-	-	-	5.00	[ICRA]BB- (Stable)
NA	Term Loan	FY2018	NA	FY2026	16.75	[ICRA]BB- (Stable)
NA	Proposed Term Loan	-	NA	NA	3.00	[ICRA]BB- (Stable)
NA	Unallocated	NA	NA	NA	0.25	[ICRA]BB- (Stable)

Source: Namdhari Animal Genetics Private Limited

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