January 27, 2017

Asian Lakto Industries Limited

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Long-term – Fund Based Limits	13.00	[ICRA]B+ (Stable); upgraded from [ICRA]B-
Total	**13.00**	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded its long-term rating on the Rs. 13.00 crore fund-based facilities of Asian Lakto Industries Limited (ALIL)[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 steady financial performance of ALIL, whereby its top-line grew at a CAGR of ~19.4% in the last five years and improvement in capital structure, as reflected by the reduction in gearing ratio (2.2 times in FY2016 over 2.5 times in FY2015). ICRA also takes note of the improved financial discipline, where the company was regular in its debt repayments. The rating continues to draw comfort from the extensive experience of the promoters in the beverage industry, ALIL's long track record of operations, its wide distribution network and established relationships with reputed clients.

However, the rating is constrained on account of ALIL's low profit margins on account of the intense competition in the industry. The rating also takes into account the seasonal nature of the business and the company's relatively modest scale of operations. It also factors in the ALIL's high working capital intensity on account of high inventory levels. The low profitability coupled with the high debt levels has resulted in weak coverage indicators with elevated TD/OPBDITA[2] and weak NCA/TD[3].

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 sensitivities.

Key rating drivers

Credit Strengths

- Long experience of the promoters in the beverages industry;
- Growth in top-line at a CAGR of ~19.4% in the five years ;
- Many reputed players in the customer profile and diversified product profile within the beverages segment.

[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

Credit Weakness

- Almost full utilisation of working capital limits;
- Fragmented industry with many small players in the fray leads lower margins;
- Subdued debt protection metrics owing to low profitability.

Detailed description of key rating drivers highlighted above:

ALIL processes fruit pulp to produce fruit juice, which is sold under the brand, '*Mr Fresh*'. Starting as bottling partners for Thums Up, the company's promoters have extensive experience of more than four decades in the beverage industry, by virtue of which ALIL has an established distribution network across the states of Haryana, Punjab and Himachal Pradesh. It leverages this network to market its product. Apart from its traditional markets, the company also sells its products in modern retail stores like Reliance Fresh and Metro Cash & Carry. ALIL's top-line has grown at a healthy CAGR of ~19.4% over the last five years.

The company is required to store fruit pulp during the season to manufacture its products (i.e., juices) throughout the year, resulting in high inventory holding. With small amount of creditors, the company's operations are working capital intensive, resulting in high dependence on working capital limits. Furthermore, owing to high competitive intensity in the industry because of its fragmented nature, ALIL's margins are under pressure.

Analytical approach: Not Applicable

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

About the Company:

Incorporated in 1994 by Mr. Radhe Shyam Poddar, Mr. Gopal Poddar and Mr. Neeraj Poddar, ALIL was originally engaged in the processing of flavoured milk. In 2007, the company diversified its business and started processing fruit juices. In 2010, ALIL exited the flavoured milk business owing to continued losses. The company sells its fruit juices through various distributors and retail chains under the brand name, '*Mr. Fresh*', in various flavours of mango, apple, lichi, guava, mixed fruit, etc.

The company reported a net profit after tax of Rs. 1.34 crore on an operating income of Rs. 78.14 crore in FY2016, as against a net profit after tax of Rs. 1.52 crore on an operating income of Rs. 74.22 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 FY2016	Date & Rating in FY2014	Date & Rating in FY2013
				January 2017	October 2015		
1	Cash Credit	Long Term	13.00	[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	-	-	-	13.00	[ICRA]B+ (Stable)

Source: AAPL

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