



RATING RATIONALE

10 Dec 2019

A R Dairy Food Pvt Ltd

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of ₹26.92 Crores of A R Dairy Food Pvt Ltd.(ARDFPL or 'The Company')

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Aug 2018)	Present
Fund based	31.89	26.72	Long term	BWR BBB-/Stable	BWR BBB-/Stable Reaffirmation
Non-Fund based	0.20	0.20	Short term	BWR A3	BWR A3 Reaffirmation
Total	32.89	26.92	INR Twenty Six Crores and Ninety Two Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork rating reaffirms rating of BWR BBB- for long term with Stable Outlook and short term rating as BWR A3.

Rating Outlook: Stable

BWR believes the **A R Dairy Food Pvt Ltd(ARDFPL)**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.



KEY RATING DRIVERS

BWR has essentially relied upon audited financial upto FY19, Projected financial FY20 and FY21, and information / clarification given by Company's management.

- **Credit Strengths:**

Promoter's experience and established operations:

Mr. R Rajasekaran is the managing director of the company, who is having more than two decades of experience in the milk processing industry. He is well supported by his wife Mrs. Suriya Prabha and as well as Mr. S R Srinivasan, who are the other directors of the company. Operations are being supported by efficient and qualified team of management personnel. Presence of more than two decades in the milk processing industry has enabled the promoter to build strong relationships with customers and suppliers.

Diversified product portfolio:

ARDFPL has diversified its product portfolio, comprising of product such as raw milk, skimmed milk powder, butter, ghee, milk cream and packaged drinking water. During FY18-19, around 93% of its sales were from milk business, 5% are from butter sales and remaining 2% are from milk cream sales, ghee sales and packaged drinking water.

Moderate Financial Risk Profile:

As per the information given by the management, the company has achieved Rs. 185.58Cr from April 19 to Oct'19. ISCR and DSCR stood at 2.11X and 1.15X respectively in FY19. Total debt to total equity ratio has improved to 1.66X in FY19 from 1.75X in FY18. PAT margin has improved to 0.99% in FY19 from 0.65% in FY18.

- **Credit Risks:**

Thin profit margins

Operating margin is at 5.35% and Net profit margin is 0.99% in FY19 due to intense competition from government and private dairies which limits the company's bargaining power with its suppliers and customers.

Competition from other players and Susceptibility to changes in government regulations and other environmental risk:

ARDFPL faces competition in the dairy segment from other established brands in the organized market. The competition gets fierce with presence of unorganized players leading to pricing pressures. The risk is mitigated to some extent as the company has been able to manage the competition as demonstrated by increasing volumes while maintaining profitability. Like all other agriculture-based products, pricing of milk products is sensitive to regulation by the government and other environmental conditions.



ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has factored in the standalone business parameters and financial risk profile of the company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The ability of the Company to improve its scale of operations profitably, strengthen its capital structure and ensure timely collection of its receivables are the key rating sensitivities.

Positive: The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement.

Negative: The rating may be downgraded if the revenues go down and profit margins show lower than expected figures.

LIQUIDITY POSITION (Adequate)

The company has cash and bank balance of Rs.4.92 Cr in FY 19. The debt servicing capabilities of the company are at a comfortable level with ISCR and DSCR 2.11 times and 1.15 times in FY19 respectively. The current ratio is stood at 1.37 times in FY 19. Total Debt/ TNW is also adequate at 1.68 times in FY 19. Therefore, the overall liquidity is adequate.

COMPANY PROFILE

The company was initially promoted by Mr. R. Rajasekaran, in the name of Sarayu Cryogenics Private Limited (Sarayu) during 1995. Sarayu was engaged in the manufacturing of liquid oxygen. During 1998, the name was changed to A R Dairy Food Private Limited and the entity commenced business of procuring & selling milk and milk products. The company's milk processing unit is located in Dindigul, Tamil Nadu and has an installed capacity of 3.5 lakh litre per day (LLPD). A.R Dairy Food Private Limited (ARDFPL) is primarily engaged in the manufacturing and marketing of milk.

The company also sells other products like milk powder, butter, curd, butter milk, flavored milk and packaged drinking water. The milk and flavored milk are sold under its brand names - 'Raaj' and 'Milky Choice' respectively; packaged drinking water is marketed under brand names 'Raaj' and 'Maanus'.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Revenue	₹ Cr	202.64	249.02
EBITDA	₹ Cr	10.24	10.68
PAT	₹ Cr	2.01	1.62
Tangible Net worth	₹ Cr	30.02	28.96
Total Debt/Tangible Net worth	Times	1.66	1.75
Current Ratio	Times	1.37	1.47

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :NA

RATING HISTORY

Instrument / Facilities	Current Rating (2019)			Rating History		
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	Aug 2018	June 2017	2016
Fund Based	Long term	26.72	BWR BBB-/Stable Reaffirmation	BWR BBB-/Stable	BWR BBB-/Stable	NIL
Non -Fund Based	Short term	0.20	BWR A3 Reaffirmation	BWR A3	BWR A3	NIL
Total		26.92	INR Twenty Six Crores and Ninety Two Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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A R Dairy Food Pvt Ltd.

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	Cash Credit	16.00	-	16.00
2		Bank Guarantees	-	0.20	0.20
3	YES Bank	Term loans*	7.93	-	7.93
4	Indusind Bank	Term loans*	2.79	-	2.79
TOTAL					26.92

Total Rupees Twenty Six Crores and Ninety Two Lakhs only.

***Term loan o/s as on 30.11.19**



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