



## Rating Rationale

### A R Dairy Food Pvt Ltd

31 Aug 2018

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of Rs. 32.09 Crs of A R Dairy Food Pvt Ltd (ARDFPL)**

#### Particulars

Facility	Previous Limit	Present Limit	Tenure	Previous rating (23 <sup>rd</sup> June 2017)	Present Rating
<b>Fund Based</b>			<b>Long Term</b>	<b>BWR BBB- (Pronounced as BWR Triple B Minus)</b>	<b>BWR BBB- (Pronounced as BWR Triple B Minus)</b>
<b>Cash Credit</b>	<b>16.00</b>	<b>14.00</b>			
<b>Stand by Line of credit</b>	<b>-</b>	<b>2.00</b>			
<b>Term Loans</b>	<b>22.50</b>	<b>15.89</b>		<b>Outlook : Stable</b>	<b>Outlook : Stable Reaffirmed</b>
<b>Non Fund Based</b>			<b>Short Term</b>	<b>BWR A3 (Pronounced as BWR A Three)</b>	<b>BWR A3 (Pronounced as BWR A Three) Reaffirmed</b>
<b>Bank Guarantee</b>	<b>0.20</b>	<b>0.20</b>			
<b>Total</b>	<b>38.70</b>	<b>32.09</b>	<b>Rupees Thirty Two Crores and Nine Lakhs Only</b>		

\* Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY17, provisional of FY18 and Projections up to FY20 of AR Dairy Food Pvt Ltd (ARDFPL), publicly available information and information/clarification provided by the Company.

The rating continues to derive strength from extensive experience of the directors in milk processing industry, year on year growth in revenue, established customer base and good track record of operations, continued efforts by the company to increase the proportion of value added products like butter, curd and ghee, well established milk procurement network. However the rating is constrained by moderate financial risk profile of the company, higher gearing level, thin profitability margin, higher level of receivables, seasonality and environmental risk related to milk procurement and stiff competition from Government and other players.

Going forward, the ability of the company to increase its scale of operations, to manage its debt funded capital expenditure, improve its overall credit profile, building its brand name in the vicinity will be the key rating sensitivities.



### **Key rating Drivers:**

#### 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 FY17-18, around 83% of its sales were from milk business, 12% are from butter sales and remaining 5% 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. 248.86Cr in FY17-18. which shows the increasing trend in the topline compared to FY16 (202.90Cr) and FY17(235.21Cr). ISCR and DSCR stood at 3.12X and 1.49X respectively in FY17. Total debt to total equity ratio has deteriorated to 2.00X, due to availment of additional term loan.

#### Thin profit margins

Operating margin, is at 5.39% and Net profit margin is 1.31% in FY17 due to intense competition from government and private dairies which limits the company's bargaining power with its suppliers and customers.

#### High Receivable days and Susceptibility to changes in government regulations and other environmental risk:

In FY17, out of the trade receivables, Rs.6.73 crs was outstanding for more than six months from its associates (Dindigul Farm House Pvt.Ltd.) The company states that the amount stands reduced to Rs.2.01 crs and subsequently adjusted in FY19.

Like all other agriculture-based products, pricing of milk products is sensitive to regulation by the government and other environmental conditions.

### **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.

### About the Company

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'.

### Company's Financial Performance

The company has achieved total sales revenue of Rs. 249.15Cr (provisional - FY18) and the projected sales of 264.92 crs for FY19.

#### Key Financial Indicators

Particulars	FY18 (Provisional)	FY17 (Audited)
Operating Income (In Crs)	249.15	236.99
EBITDA (In Crs)	10.33	12.78
PAT (In Crs)	1.50	3.10
Net worth (In Crs)	26.12	25.38
Total Debt / TNW (Times)	2.14	2.00
Current Ratio (Times)	1.51	1.58

**Rating History for the last three years: (including withdrawn/suspended ratings)**

Sl. No	Instrument/Facility	Current Rating (Year 2018)		Rating History			
		Type (Long Term/Short Term)	Amount (Rs Crs)	2018	June 2017	2016	2015
1	Cash Credit	Long Term	14.00	BWR BBB-  (Pronounced as BWR Triple B minus )  (Outlook: Stable)  Reaffirmed	BWR BBB-  (Pronounced as BWR Triple B minus )  (Outlook: Stable)	-	-
2	Stand by line of credit	Long Term	2.00				
3	Term loans(o/s)	Long Term	15.89*				
2	Bank Guarantee	Short Term	0.20	BWR A3 (Pronounced as BWR A three )  Reaffirmed	BWR A3 (Pronounced as BWR A three )		
<b>Total</b>			<b>32.09</b>	<b>Rupees Thirty Two Crores and Nine Lakhs Only</b>			

\*Term loans O/S as on 28th Aug 2018

**Hyperlink/Reference to applicable Criteria**

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

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#### **Note on complexity levels of the rated instrument:**

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#### **About Brickwork Ratings**

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BWR has rated over 30 PSUs/Public Sector banks, as well as many major private players. BWR has a major presence in ULB rating of nearly 102 cities

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