Rating Rationale

Al-Dua Food Processing Private Limited

28 March 2018

Brickwork Ratings reaffirms the ratings for the bank loan facilities aggregating Rs. 230.06 crores of Al-Dua Food Processing Private Limited (AFPL or 'the Company') with change in outlook to 'Negative'

Particulars

Facility Rated	Amount(Rs. Crs)		Tenure	Rating[1]	
	Previous	Present		Previous	Present
Fund Based	228.06	227.06	**Long Term**	BWR A – (Structured Obligation) (Outlook Stable)	BWR A – (Structured Obligation) (Outlook Negative) (Reaffirmed)
Non Fund Based	3.00	3.00	**Short Term**	BWR A2+ (Structured Obligation)	BWR A2+ (Structured Obligation) (Reaffirmed)
Total	**Rs. 230.06 Crores (INR Two Hundred & Thirty Crores & Six Lakhs Only.)**				

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

Long Term Rating reaffirmed at BWR A – (SO) (Outlook Negative). Short Term Rating reaffirmed at BWR A2+ (SO).

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the Company's audited financial results upto FY17, un-audited financials for 9MFY18, projected financials for FY18 and FY19, publicly available information and clarifications provided by the Company.

The words "Structured Obligation" (SO) in the ratings take into account the credit enhancement extended in the form of unconditional and irrevocable corporate guarantee by MK Overseas Pvt. Ltd. (flagship company of MK Group) in favor of HDFC Bank and Bank of Baroda for the bank loan facilities availed by AFPL. The rated debt instruments do not involve structured payment mechanism.

The ratings draw strength from the company's established market presence and experience promoter's with established track record in this industry, adequate cash accruals to meet its debt obligations coupled with improving gearing ratio, healthy order book position where major orders are backed by LC's in its favor, integrated meat processing plant which is strategically located due to proximity to the sources of livestock and strong support from MK Overseas Pvt. Ltd in view of commonality of management and business profile.

The ratings, however, continue to factor in the working capital intensive nature of operations owing to increasing inventory levels and outstanding receivables positions during FY17, decline in its profitability levels, highly competitive and fragmented industry and exposure to foreign exchange risk and trade policies of importing countries.

Analytical Approach

For arriving at the ratings, BWR has taken into account, *inter alia,* the explicit support provided by MK Overseas Pvt. Ltd (Flagship Company of MK Group) to Al-Dua Food Processing Pvt. Ltd. (AFPL) in the form of corporate guarantee.

Further, BWR has taken a consolidated view of the financial and operational profile of AFPL along with its group company – MK Overseas Pvt. Ltd.; given the common promoters, strong operational and financial linkage amongst the group. There are together referred to as "MK Group".

Detailed in the Rating Criteria hyperlinks is provided at the end of this rationale.

Rating Outlook

The 'Negative' Outlook is assigned to the Company on account of its ballooning cash conversion cycle, resulting in full utilization of its working capital limits. This is likely to cause a deterioration in its liquidity position. Further a likelihood of the adverse impact of increasing raw material costs may put pressure on the Company's profitability margins over the medium term. The rating outlook may be revised to 'Stable' in case turnover and profitability margins increase despite increasing overall debt position and the promoters arrange to infuse additional long term funds, as and when required, for improving its net working capital position over the medium term.

Key Rating Drivers

Credit Strengths:

Experienced promoters with established track record: The Company benefits from the long term experience of the promoters in this industry. The MK Group is promoted by Mohd. Kamil, a first generation entrepreneur, with experience of more than four decades in this industry. Mohd. Moshin, Chief Executive Officer, joined the Company in 2010 and oversees the marketing and financial matters in the Company.

Healthy order book position: The Company reported healthy order book position as on date, with orders majorly catering to markets in Indonesia and China. The group strategically shifted its export markets to countries in South Asia owing to instability occurring in the markets in Egypt during FY17. Presently, the Company has a confirmed order book position of Rs. 205.00 Crs which is to be executed within 3-4 months' time period.

Fully integrated facility: The Company also has a fully integrated meat processing unit located at Aligarh (Uttar Pradesh) with a total installed capacity of 2,01,000 TPA (tons per annum). This provides a competitive edge for the exports market.

Adequate proximity to its sources of raw material: The Company's unit is located in Aligarh, Uttar Pradesh, which facilitates easy availability of raw material from the neighboring states.

Group Support: The Company enjoys support from its other group company i.e. MK Overseas Pvt Ltd (MKOPL), in view of commonality of management and business synergies. MK Overseas P Ltd is a flagship company of MK Group, which owns 95.39% shareholding in AFPL. MK Overseas Pvt. Ltd. engaged in the same business activity and having two manufacturing units located at Sahibabad (UP) & Derabassi (Punjab). The total installed capacity of both the units are 91350 MTPA (Frozen Meat) & 28250 MTPA (Poultry feed & Tallow) for FY17.

Credit Weaknesses

Adverse market conditions during FY17: The Company faced several adverse market conditions such as demonetization impact, instability in Egypt markets, setback in the movement of livestock due to change in state government policies which resulted overall increase in its raw material costs coupled with stagnant growth in its turnover levels during FY17. Thus, the ability of the Company to improve its turnover and profitability levels over the medium term will remain the key rating sensitivity.

Working capital intensive nature of operations: Its operations remained working capital intensive during FY17 and reported high inventory level position during FY17. Inventory levels also remain high as its exports comprises various components of meat products such as tenderloin, hindquarter, chuck tender etc. which is required to be stored in advance in order to meet the requirements of its overseas buyers.

Competitive nature of Industry: The Company operates in a highly competitive industry with a large number of established players. This limits the ability of the Company to adopt pricing flexibility strategies besides exerting pressure on profitability margins.

Exposure to foreign exchange risks: The Company runs a 100% export oriented unit which mainly caters to the markets in Middle East, Indonesia, China etc. and thus is exposed to foreign currency fluctuation risks on its exports receivables and the counterparty risks.

About the Company

Al-Dua Food Processing P Ltd (AFPL) is a part of MK Group, is engaged in the processing and exports of frozen buffalo boneless meat and meat products to countries such in Middle East, South Asia, China etc. AFPL has set up a unit in 2012 with a total installed capacity of 2,01,000 MTPA (Integrated Meat plant) at Aligarh, Uttar Pradesh. MK Group also own cold storage facility based in Mumbai with a total capacity of storing 6000 kg of frozen buffalo meat. The group sells under the brand name – "AL-AHMED" and "5 STAR".

About the Guarantor

MK Overseas P Ltd is a Flagship Company of MK Group, owns 95.39% shareholding in AFPL. The Company is engaged in the same business activity; having two manufacturing units located at Sahibabad (UP) & Derabassi (Punjab). The total installed capacity of both the units are 91350 MTPA (Frozen Meat) & 28250 MTPA (Poultry feed & Tallow) for FY17.

Company Financial Performance

AFPL has reported a total operating income of Rs. 1028.12 Crs in FY17 as against Rs. 1035.98 Crs in FY16. It has reported a net profit of Rs. 15.20 Crs during FY17 as against Rs. 21.04 Crs during FY16. As on 31st March 2017, it has reported a tangible net worth of Rs. 155.36 Crs against Rs. 140.16 Crs as on 31st March 2016.

On a consolidated basis, the MK Group reported a turnover of Rs. 2063.70 Crs (P.Y. 2219.03 Crs) with a combined tangible net worth of Rs. 295.35 Crs (P.Y. 264.09 Crs) during FY17.

Key financial indicators are summarized below.

Particulars	**FY16 (A)**	**FY17 (A)**
Total Operating Income (Rs. Crs)	1035.98	1028.12
EBITDA (Rs. Crs)	48.20	36.27
PAT (Rs. Crs)	21.04	15.20
Total Tangible Networth (Rs. Crs)	140.16	155.36
Gearing (TOL/TNW) Ratio (times)	1.68	1.57
ISCR (times)	4.26	3.49

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

Sl. No.	**Facility**	**Current Rating (FY2018)**			**Rating History**		
		Type	**Amount (Rs Crs)**	**Rating**	**FY2017**	**FY2016**	**FY2015***
1	**Fund Based**	Long Term	227.06	BWR A – (SO) (Negative Outlook) (Reaffirmed)	BWR A – (SO) (Outlook Stable)	N.A.	N.A.
2	**Non Fund Based**	Short Term	3.00	BWR A2+ (SO) (Reaffirmed)	BWR A2+ (SO)	N.A.	N.A.
Total			**230.06**	**INR Two Hundred Thirty Crores and Six Lakhs Only**			

**FY refers to the period from 1st April to 31st March*

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt
- Structured Obligation (SO) Instruments

For any other criteria obtain hyperlinks from website

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For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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