

April 29, 2022

## Dairy Tales Namdhari Pvt Ltd: Rating downgraded; outlook Stable

### Summary of rating action

| Instrument               | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action                                       |
|--------------------------|-----------------------------------|----------------------------------|---|
| Fund-based – Cash Credit | 5.00                              | 7.00                             | [ICRA]B (Stable) downgraded from [ICRA] B+ (Stable) |
| Fund-based – Term Loan   | 19.75                             | 16.47                            | [ICRA]B (Stable) downgraded from [ICRA] B+ (Stable) |
| Unallocated Limits       | 0.25                              | 1.53                             | [ICRA]B (Stable) downgraded from [ICRA] B+ (Stable) |
| <b>Total</b>             | <b>25.00</b>                      | <b>25.00</b>                     |   |

\*Instrument details are provided in Annexure-1

### Rationale

The rating revision considers the deterioration in Dairy Tales Namdhari Pvt. Ltd.'s (c) credit profile as widening of operating losses and significant increase in debtor days adversely impacted the company's debt metrics and stretched its liquidity position. The capacity utilisation of processing unit has been low at 10-12%, which resulted in under absorption of fixed overheads and impacted the company's margins. Moreover, input prices increased significantly over the past few months, which could not be passed on to its customers completely. The company derives most of its revenues (65% in FY2022) from sales to a related entity (Namdhari Agro Fresh), and there have been delays in payment of Rs. 12.0 crore (out of Total Operating Income of Rs. 18.5 crore) from Namdhari Agro Fresh leading to significant increase in debtor days. High operating losses and stretched debtor days led to stretched liquidity position. The same is reflected in negligible buffer in working capital limits and negative retained cash flows.

However, inter-corporate deposits of Rs. 6.86 crore from its group entity supported the company in meeting its working capital requirements and debt obligations. While expected increase in scale, with expansion to Telangana and Maharashtra, and measures undertaken to reduce costs (such as in-house fodder production) are expected to support improvement in margins going forward, the company's liquidity and debt profile are expected to remain stretched in the near term. ICRA notes the fragmented nature of the dairy industry, characterized by intense competition from established and unorganized players in the market. However, the rating derives its strengths from the promoter extensive experience of more than three decades in the dairy industry, established infrastructure facility for milk processing and regular off-take from Namdhari Agro Fresh Private Limited (group entity of Namdhari Group).

The Stable outlook on the [ICRA]B rating reflects ICRA's expectation that DTNPL will continue to benefit from its recent expansion of business to Hyderabad and Mumbai, while continuing to receive support from its promoter and promoter-held entities.

### Key rating drivers and their description

#### Credit strengths

**Extensive experience of promoters in dairy industry** – DTNPL's promoter have been associated with the dairy industry for over three decades, selling milk and milk products through the retail store, Namdhari Agro Fresh, under the brands, Dairy Tales and Namdhari. The entity has a well-established infrastructure for milk processing and is part of an Namdhari Group based out of Bangalore.

**Offtake support from Group company** – Most of the company’s sales in FY2022 (~65% of its revenue) were made to its Group entity, Namdhari Agro Fresh Private Limited, which retails fresh fruits, vegetables, milk and other grocery products from 35 outlets across Bangalore, providing offtake support in the long-term.

### Credit challenges

**Small scale of operations and significant operating losses** – The company’s scale of operations remains small with estimated revenues of ~Rs. 18-19 crore in FY2022. Moreover, its capacity utilization has been low at 10-12%, which coupled with high fixed overheads has resulted in significant losses over the past two years. The company has taken several measures such as expansion to Mumbai and Hyderabad as well as contract manufacturing for FreshToHome (FreshToHome is an online grocery store that sells a range of seafood, meat, milk etc.,) to improve its scale of operations. However, margins are expected to remain under pressure unless it scales-up its volumes significantly and passes on increase in input costs to its customers. While ICRA estimates the company’s losses to contract in FY2023, its financial profile is expected to remain stretched in the near term.

**Weak financial profile** – The company’s financial profile has remained weak given the operating losses and negative net worth. The coverage indicators are stretched as Total debt/OPBDITA, interest coverage, and DSCR remain negative. As DTNPL improves its scale by gradually expanding its business to other markets and reduces input costs, the profitability and financial profile is expected to improve.

**Significant competition from established players** - DTNPL faces intense competition from the unorganized sector, as well as cooperatives and other private dairies within the organized sector. This results in limited pricing flexibility for the company

### Liquidity position: Stretched

DTNPL’s liquidity position continues to remain stretched as operating losses and stretched debtors resulted in negative retained cash flows. The company has negligible buffer in working capital limits, while it has sizeable repayment obligations of ~Rs. 3.69 crore in FY2023. However, unsecured loans and inter-corporate deposits from promoters and other promoter-held entities are expected to support the company in meeting its obligations.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings of DTNPL if the company demonstrates a healthy growth in the scale of operations and profitability, resulting in better coverage metrics. Improved liquidity position would also be a trigger for ratings upgrade. Specific credit metrics could be DSCR of more than 1.5 times.

**Negative factors** – Expansion of losses, absence of promoter or group financial support resulting in a further deterioration of liquidity position, might result in a rating downgrade.

### Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable Rating Methodologies | <a href="#">Corporate Credit Rating Methodology</a>                  |
| Parent/Group Support            | Not applicable   |
| Consolidation/Standalone        | The ratings are based on the company’s standalone financial profile. |

## About the Company

Dairy Tales Namdhari Pvt Ltd (DTNPL), formerly known as Namdhari Animal Genetics Private Limited is a part of Namdhari Group, was incorporated in June 2012 at Uragehalli in Bangalore to set up an integrated dairy farm, with a herd size of ~1,800 cows and an in-house milk production capacity of around 50,000 LPD. It also procures milk from farmers and agents in its vicinity to meet its requirements. The company plans to further increase its herd size, going forward.

## Key financial indicators (Audited)

| Standalone   | FY2020 | FY2021 | 6MFY2022* |
|--|--------|--------|-----------|
| Operating Income (Rs. crore)                         | 16.5   | 19.0   | 8.8       |
| PAT (Rs. crore)                                      | (6.0)  | (7.3)  | (3.6)     |
| OPBDIT/OI (%)  | 0.2    | (9.0)  | (13.5)    |
| PAT/OI (%)   | (36.4) | (38.4) | (40.5)    |
| Total Outside Liabilities/Tangible Net Worth (times) | 2.1    | 5.4    | 13.8      |
| Total Debt/OPBDIT (times)                            | 937.9  | (19.9) | (16.3)    |
| Interest Coverage (times)                            | 0.0    | (0.7)  | (1.3)     |

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*Provisionals for 6MFY2022

Source: Company

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| Instrument    | Type      | Current Rating (FY2023)  |   |                  | Chronology of Rating History for the past 3 years |                         |                         |                |
|---------------|-----------|--------------------------|---|------------------|---|-------------------------|-------------------------|----------------|
|               |           | Amount Rated (Rs. crore) | Amount Outstanding as of March 31, 2022 (Rs. crore) | Date & Rating in | Date & Rating in FY2021                           | Date & Rating in FY2020 | Date & Rating in FY2019 |                |
|               |           |                          |   |                  |   |                         |                         | April 29, 2022 |
| 1 Cash Credit | Long term | 7.00                     | -   | [ICRA]B (Stable) | [ICRA]B+ (Stable)                                 | [ICRA]D                 | [ICRA]BB- (Stable)      |                |
| 2 Term Loan   | Long term | 16.47                    | 16.47   | [ICRA]B (Stable) | [ICRA]B+ (Stable)                                 | [ICRA]D                 | [ICRA]BB- (Stable)      |                |
| 3 Unallocated | Long Term | 1.53                     | -   | [ICRA]B (Stable) | [ICRA]B+ (Stable)                                 | [ICRA]D                 | [ICRA]BB- (Stable)      |                |

## Complexity level of the rated instrument

| Instrument              | Complexity Indicator |
|-------------------------|----------------------|
| Long Term - Cash Credit | Simple               |
| Long Term – Term Loan   | Simple               |
| Unallocated             | Not Applicable       |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's

credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://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        | -                           | -           | -             | 7.00                     | [ICRA]B (Stable)           |
| NA      | Term Loan          | March 2017                  | -           | October 2026  | 16.47                    | [ICRA]B (Stable)           |
| NA      | Unallocated limits | -                           | -           | -             | 1.53                     | [ICRA]B (Stable)           |

Source: Company

**Annexure-2: List of entities considered for consolidated analysis – Not applicable**

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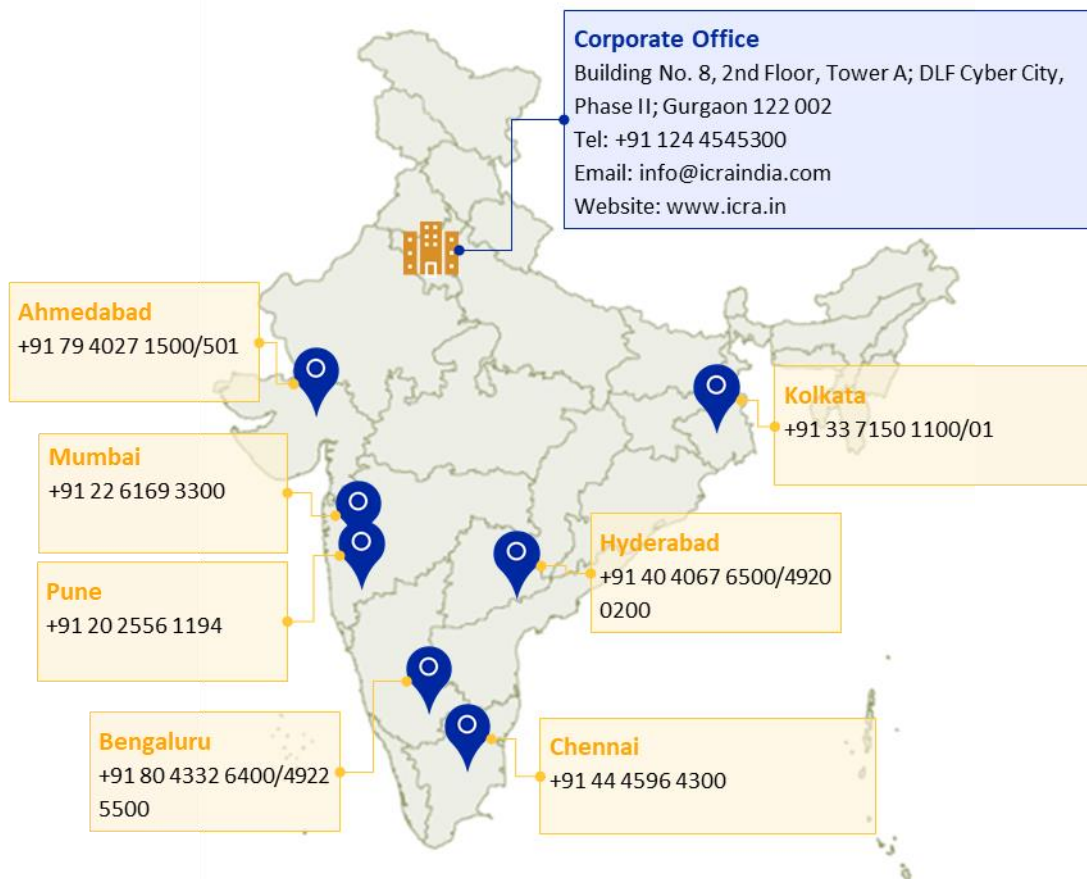
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