April 22, 2025

Drools Pet Food Private Limited: Ratings downgraded; rated amount enhanced

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term Cash credit	127.00	122.00	[ICRA]A (Stable); downgraded from [ICRA]A+ (Stable)
Long-term – Fund-based term loans	35.00	188.75	[ICRA]A (Stable); downgraded from [ICRA]A+ (Stable); assigned for enhanced amount
Short-term Interchangeable limit	(127.00)	(122.00)	[ICRA]A2+; downgraded from [ICRA]A1
Total	**162.00**	**310.75**	

**Instrument details are provided in Annexure I*

Rationale

The ratings for Drools Pet Food Private Limited (DPFPL) are based on standalone considerations, against the earlier analytical approach when the ratings also drew comfort from implicit parent group support. The infusion of private equity funds into the company along with the revision in stance of the promoter group in terms of extending financial support to the company have prompted the change in the analytical approach.

The revision of ratings on the bank lines of DPFPL considers an expected moderation in the entity's credit metrics due to the large debt-funded expansion that is likely to be concluded by December 2026, and a potential liability towards payout to be made to its private equity (PE) investors. DPFPL is undertaking a large debt-funded capacity expansion for ~Rs. 550 crore, spread across FY2024 to FY2027, funded through debt and internal reserves in the ratio of 57:43, exposing it to project execution and market risks.

While the entity raised growth capital in the form of Compulsory Convertible Cumulative Preference Shares (CCCPS) for Rs. 309.4 crore from LCA Indus Pte. Ltd (a private equity firm) through FY2024 and FY2025, the entity and its promoter are liable to provide a return of 14% IRR on the funds invested, which poses a potential future liability. While the entity could provide an exit to the PE investor over the next few years through an initial public offering, there remains a risk of the markets not being conducive to the equity fund raise, in which case the obligation to provide an exit could fall on the entity. The ratings also remain constrained by DPFPL's exposure to quality and reputation risks and intense competition from established market players in the pet food industry. ICRA also notes that the company's profitability remains vulnerable to volatility in key raw material prices.

The ratings continue to factor in the long experience of the promoters in the pet food industry, and management linkages of being a part of the Indian Broiler Group (IB Group). The ratings also consider the company's position as one of the leading players in the Indian pet food industry, backed by its pan-India presence and a strong brand equity built over the years. DPFPL registered a CAGR revenues increase of 49% over the last 3 years ending in FY2024 and its revenues grew by ~27.5% on a YoY basis (annualised) to Rs. 686.4 crore in 9M FY2025, primarily due to the increase in cat and dog food volumes. ICRA expects a healthy growth in DPFPL's revenues in FY2026, supported by healthy demand for its existing products and increased penetration into the treats segment. However, its operating margin moderated by 300 bps to 8.6% in FY2024, owing to an increase in brand promotion, selling and distribution expenses. Nevertheless, its operating margins are likely to witness a modest recovery over the medium term, supported by various cost optimisation measures undertaken by DPFLPL.

The Stable outlook on the long-term rating reflects ICRA's expectation that DPFPL will be able to sustain its revenue growth and operating metrics, supported by its brand equity as one of the top players in the pet food industry. Further, the outlook underlines ICRA's expectation that the entity's incremental capex, to further expand its capacity, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Long experience of promoters in the pet food industry, a part of the IB Group – The promoters of DPFPL have been involved in the pet food industry for more than a decade. This has aided the company to expand its scale of operations and geographical footprint gradually over the past decade. Although DPFPL is not dependent materially on Abis Exports (India) Private Limited (AEIPL; part of the IB group) for its operations at present, it shares management linkages of being part of AEIPL. Increasing pet ownership, rising trend in spending on pet care, and a shift towards premium, gourmet and specialised pet food products are likely to drive demand for DPFPL over the medium term.

Strong brand equity, pan-India presence with a wide distribution network – Drools is one of the major brands in the domestic pet food industry and enjoys a strong brand recall, supported by endorsements from leading Bollywood celebrities. ICRA notes that the company has been selling goods under the brand, Drools, for more than a decade now. The company also has other brands such as Purepet, Focus, Let's Bite, Meatup, Grain Zero and others. DPFPL has a pan-India footprint with a wide network comprising 1,921 distributors and 10,575 retailers. Around one-fourth of its revenues is derived from e-commerce platforms. DPFPL has presence across 36 states and Union Territories in India. Nonetheless, ICRA notes that sales contribution from the top five states stood high at ~55% in FY2024 and ~56% in 9M FY2025 (~56% in FY2023), providing the company with an opportunity to improve its revenue distribution evenly across the geographies.

Credit challenges

Exposure to project and market risks owing to large, debt-funded capacity expansion – DPFPL is undertaking a large debt-funded capacity expansion at its Tolagaon unit in Chhattisgarh. The estimated cost to be incurred for this capex is ~Rs.550 crore, which will be funded through a mix of term loan and internal reserves in the ratio of 57:43 and is proposed to be fully operational by December 2026. The existing capacities have a utilisation level of ~85%. The entity is currently increasing its capacity for supporting its revenue growth and expanding into new product categories. Besides, a part of the PE funds infused in FY2024 and FY2025 is also being utilised towards the planned expansion. The project would be exposed to market risks upon commissioning, considering the large capacity being added. Given the sizeable scale-up in capacity, timely and successful ramp-up of operations remains crucial to maintain the company's profitability and earnings profile.

Profitability remains susceptible to volatility in raw material prices amid recent moderation in financial profile and competition from established players – Given the competition in the segment in which the company operates, it is not possible to immediately and entirely pass on any cost increase. As a result, DPFPL's operating profitability remains susceptible to volatility in key raw material prices. Besides, recognition of the payout made to promoters for Rs. 136.7 crore (in FY2024) by the PE investor as an option value liability has weakened the financial profile of DPFPL. Owing to the ongoing debt-funded expansion, coupled with recognition of provision for returns to be provided to its investors, its leverage and coverage metrics expected to have remained weak in FY2025 and also in FY2026. While the management does not anticipate any potential outflow towards the provisions created over the medium term, any cash outflow towards the same would adversely impact the financial profile of DPFPL and remains a key monitorable. Despite having an established position, DPFPL remains exposed to stiff competition from other recognised players in the pet food industry. Further, the threat of new entrants also remains high as the industry is in its nascent stage.

Exposed to high quality and reputation risks – Quality and reputation risks remain high as the company belongs to the pet food industry. However, stringent quality control measures adopted by the company mitigate this risk to a large extent.

Liquidity position: Adequate

DPFPL's liquidity is expected to remain adequate, backed by steady earnings from the business and cash buffer available post the infusion of funds by PE investors. The cash and liquid investments stood at around Rs. 104.3 crore as on January 31, 2025. The average utilisation of its fund-based limits during the last 12-month period ending in January 2025 stood at ~33% of the sanctioned limits. While the company has sizeable capex plans in the near term, healthy liquidity post PE infusion, debt tie-up and steady earnings provide comfort. The company has repayment obligations of ~Rs. 7.5 crore in FY2025 and ~Rs.11.9 crore in FY2026 towards bank term debt and vehicle loans. While the major repayment obligation towards the recent debt funded expansion is likely to commence from FY2027, the entity has not sought an interest moratorium towards the expansion.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in revenues and profitability with timely commissioning and ramping up of new capacities, with no cost overrun, and a sustained improvement in its credit profile.

Negative factors – DPFPL's ratings could be downgraded further if it faces delays in ramping up production from the new capacity being set up, exerting pressure on cash flows at a time when repayments and other fixed obligations will rise. As the company is pursuing a high growth strategy, its ability to manage the working capital needs will also be a rating sensitivity. Further, the rating would also be contingent on the ability of the company to provide an exit to the PE investors via an IPO or otherwise.

Analytical approach

Analytical approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of DPFPL.

About the company

DPFPL was incorporated on September 10, 2018, which was a part of AEIPL (a part of the Indian Broiler Group) and demerged from the same with effect from October 01, 2021. The company is involved in the manufacturing and marketing of pet food. It has three manufacturing facilities with a total capacity of about 89,400 million tonnes per annum (MTPA). DPFPL has raised capital of Rs. 309.4 crore from LCA Indus Pte. Ltd (a PE firm) through the issuance of 0.001% CCPS. The first tranche of the investment for Rs. 250.5 crore was infused in July 2023 and the second tranche for Rs.58.9 crore was infused in June 2024.

Key financial indicators (audited)

DPFPL	FY2023	FY2024	9MFY2025*
Operating income	477.6	717.8	686.4
PAT	27.3	-14.0	-
OPBDIT/OI	11.6%	8.6%	9.0%
PAT/OI	5.7%	-2.0%	-
Total outside liabilities/Tangible net worth (times)	2.0	-12.0	-
Total debt/OPBDIT (times)	2.5	2.3	-
Interest coverage (times)	8.7	1.3	-

*Source: Company, ICRA Research; * provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2026) Apr 22, 2025	Chronology of rating history for the past 3 years FY2025 Date	FY2025 Rating	FY2024 Date	FY2024 Rating	FY2023 Date	FY2023 Rating
Cash credit	Long term	122.00	**[ICRA]A (Stable)**	-	-	Dec-15-2023	[ICRA]A+ (Stable)	Sep-29-2022	[ICRA]A+ (Stable)
				-	-	Jan-29-2024	[ICRA]A+ (Stable)	-	-
Term loans	Long term	188.75	**[ICRA]A (Stable)**	-	-	Jan-29-2024	[ICRA]A+ (Stable)	-	-
Interchangeable limit	Short term	(122.00)	**[ICRA]A2+**	-	-	Dec-15-23	[ICRA]A1	Sep-29-2022	[ICRA]A1
				-	-	Jan-29-2024	[ICRA]A1	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term fund-based – Cash credit	Simple
Long-term fund-based – Term loans	Simple
Short term – Interchangeable limit	Simple

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 are available on ICRA's website: Click here

Annexure I: Instrument details

ISIN	Instrument name	Date of issuance	Coupon rate	Maturity	Amount rated (Rs. crore)	Current rating and outlook
NA	**Cash Credit**	NA	NA	NA	122.00	[ICRA]A (Stable)
NA	**Term Loans**	FY2024	NA	FY2033	188.75	[ICRA]A (Stable)
NA	**Interchangeable Limit**	NA	NA	NA	(122.00)	[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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