



Press Release

Al-Dua Food Processing Private Limited September 04, 2020

Ratings

Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
Short Term - Bank Facilities	219.00	IVR A2+ (IVR A Two Plus)	Assigned
Total	219.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to Al-Dua Food Processing Private Limited (ADFPPL) derives comfort from its experienced promoters and management team with its established presence in meat processing and exports and strong support from parent company Al-Hamd Agro Food Products Pvt Ltd. which is into similar line of business and shares common management. The rating also draws comfort from its comfortable capital structure along with strong net worth base, and its adequate debt protection metrics. Further, capital structure is expected to remain comfortable as the company is not having any debt avilment plan in medium term. These rating strengths are partially offset by exposure to foreign exchange risk and trade policies of importing countries, intense competition in industry and government regulations along with exposure to foreign exchange fluctuations.

Key Rating Sensitivities

Upward Factors:

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with utilisation of bank borrowings to remain below current levels on a sustained basis
- Improvement in capital structure and debt protection metrics with overall gearing ratio to remain below 1.0x on sustained basis



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Downward Factors:

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Deterioration in overall gearing to over 1.5x

Detailed Description of Key Rating Drivers

Key Rating Strengths

Established track record and longstanding experience of the promoters

Incorporated in 2003, Al Hamd Agro Food Products Pvt Ltd has an established operational track record in the buffalo meat industry with its promoters, Mr. Zaheer & family having almost four decades of experience in the industry. Mr. Zaheer & family, over the years had established healthy relationship with its customers and suppliers. In July, 2018, Al-Hamd Agro Food Products Pvt. Ltd. has acquired 99.91% equity of Al Dua Food Processing Pvt. Ltd., making it a wholly owned subsidiary company, which provides access to increased in house capacity and enables to increased market share in the industry.

Proximity of manufacturing facilities to source of raw material

The Group's plants are located at Aligarh with other leased unit in Uttar Pradesh, which have sizeable buffalo population in India, thereby ensuring easy availability of quality raw material.

Debt primarily comprises short-term borrowings;

The majority of the company's debt is working capital borrowings in the form of export packing credit (PC). Against a strong net worth base of above Rs.268.18 Crs, the group has minimal long term debt.



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Stable financial performance marked by improvement in total operating income

Despite decline revenue in Al-hamd operations, the total operating income of the group has continuously increasing from FY18 onwards. As per Provisional financials of FY2019-20, the group has reported total operating income of Rs.2115.72 crore, up by 8% as against Rs.1980.44 Cr in FY2018-19, due to increased market share and wider market reach. However, operations of the group has been impacted as commercial processed meat during lockdown nationwide and impact of pandemic in Asian countries from January onwards.

Further, the product exported by them is a perishable eatable item, hence, after lockdown, the export of the processed meat again started and at group level it has already booked turnover of around Rs.825.96 crore in 5MFY21.

Comfortable capital structure and debt protection metrics

The group has a comfortable capital structure mainly on account of its satisfactory net worth base of Rs.268.18 crore as on March 31, 2020 and borrowings to fund its working capital requirements. The overall gearing ratio of the group improved to 0.78 as on Mar.31, 2020 vis-à-vis 0.92x as on March 31, 2019, on the back of reduced utilization of bank borrowings and accretion of profit to reserves. Total indebtedness of the group as reflected by the TOL/TNW stood satisfactory at 2.35x as on March 31, 2019 and further improved to 1.60x as on March 31, 2020. Debt protection parameters marked by interest coverage ratio and Total Debt to GCA remained comfortable at 6.51x and 3.65 years in FY20.

Stable demand prospects

The growth opportunity in the export segment is likely to remain stable as India is among the leading buffalo meat exporters in the world.

Key Rating Weaknesses

Highly competitive and fragmented industry

The buffalo meat processing industry is highly fragmented and competitive because of the presence of large organised players and numerous mid-sized players. The competition is



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further aggravated by exports from other major meat-exporting countries such as Brazil and Australia. This keeps the pricing flexibility of the industry participants in check and limits profitability.

Inherent business risks because of sensitive nature of the business and regulatory risk in importing country

The business is exposed to significant challenges such as disease outbreaks in cattle population. Also, the industry is socially and politically sensitive in the country. Factors such as these can impact the availability and processing of buffalo meat. Moreover, as the company earns a major share of its revenue from the export market, the profitability remains exposed to risk of any adverse regulatory development in the importing country.

Exposure to foreign exchange risk and trade policies of importing countries

Exports constitute ~90% of the company's revenues. It exports processed meat to countries in the Middle East (the UAE, Saudi Arabia, Kuwait, etc.), Vietnam, Thailand, Hong Kong, etc. Given that most of the revenues are contributed by exports, the group is exposed to foreign currency risk on its exports receivables. It enters into forward or future contracts to hedge its foreign currency exposure. At present its unhedged foreign currency exposure is almost Nil.

Analytical Approach: Combined (Al-Hamd Agro Food Products Pvt Ltd and Al-Dua Food Processing Pvt Ltd)

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Adequate

The group had generated healthy cash accrual of around Rs.72.00 Cr in FY20 (Prov.) as against minimal repayment obligation of close to Rs.0.7 Cr. Further, the company is also expected to generate steady cash accrual over the near medium term against minimal repayment obligation. Moreover, the Company's average utilisation of its bank lines was higher, at around 80 per cent over the 12 months ended May 2020 indicating a moderate



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liquidity buffer. Furthermore, comfortable gearing position along with moderate cash balances also supports the liquidity to an extent.

About the Company

Incorporated in 2005, Al-Dua Food Processing Pvt Ltd (ADFPPL) is engaged in the processing and exports of frozen buffalo boneless meat and meat products. In July, 2018, Al-Hamd Agro Food Products Pvt. Ltd. has acquired 99.91% equity of M/s Al Dua Food Processing Pvt. Ltd., making it a wholly owned subsidiary company. The Al-Hamd is promoted by Mohd. Zaheer, who has over four decades of experience in the cattle sale & purchase and meat processing industry. Al-Dua Food Processing Pvt Ltd has set up a unit in 2012 with a total installed capacity of 2,01,000 MTPA (Integrated Meat plant) at Aligarh, Uttar Pradesh.

Al-Hamd Agro Food Products Pvt Ltd was incorporated in the year 2003 and commenced its operations in 2005. The registered and corporate office of the company is located at Aligarh, Uttar Pradesh. The company has an integrated abattoir and meat processing plant in Aligarh, U.P. with products being exported to international markets in the Middle East and the South East Asia. The company is ISO 9001:2008, HACCP and FSSAI certified.

Financials (Combined)^

	(Rs. crore)	
For the year ended / As on*	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	1980.44	2115.72
EBITDA	81.30	63.79
PAT	27.97	46.56
Total debt	199.51	207.95
Tangible Networkth	217.88	268.18
PAT margins (%)	1.42	2.18
EBITDA margins (%)	4.11	3.02
Overall Gearing Ratio (x)	0.92	0.78

*classification as per Infomerics standard.

^ Refer annexure-II for details.

Status of non-cooperation with previous CRA: On March 20, 2020, Brickwork ratings has migrated the rating of Al-Dua food Processing Pvt Ltd to BWR BBB+/Stable (CE) Issuer did not Cooperate due to non-receipt of adequate information to conduct review process.



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Any other information: N.A

Rating History for last three years:

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1	Short term – Fund Based– PC/PCFC/FBP/ FBD/FCBP/FCBD	Short Term	195.00	IVR A2+	-	-	-
2	Short Term –Non-Fund Based Facility – Bank Guarantee	Short Term	3.00	IVR A2+	-	-	-
3	Short Term –Non-Fund Based Facility – Credit Exposure	Short Term	21.00	IVR A2+	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

Name and Contact Details of the Rating Analyst:

Name: Mr. Ravi Prakash

Tel: (011) 24655636

Email: rprakash@infomerics.com

About Infomerics:

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Short term – Fund Based– PC/PCFC/FBP/FBD/FCBP/FCBD	-	-	-	195.00	IVR A2+
Short Term –Non-Fund Based Facility – Bank Guarantee	-	-	-	3.00	IVR A2+
Short Term –Non-Fund Based Facility – Credit Exposure	-	-	-	21.00	IVR A2+

Annexure 2: List of companies considered for combined analysis

Sl. No.	Name of the company	Relation	Consideration
1.	Al-Hamd Agro Food Products Pvt. Ltd.	Parent company	Full consideration