Keventer Agro Ltd
April 06, 2021

Ratings

<table>
<thead>
<tr>
<th>Facilities/Instruments</th>
<th>Amount (Rs. crore)</th>
<th>Ratings</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long Term Bank Facilities</td>
<td>178.31 (Enhanced from 140.33)</td>
<td>CARE BBB; Stable (Triple B Minus; Outlook: Stable)</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Long Term / Short Term Bank Facilities</td>
<td>155.15 (Enhanced from 125.15)</td>
<td>CARE BBB; Stable / CARE A3 (Triple B Minus ; Outlook: Stable/ A Three)</td>
<td>Reaffirmed</td>
</tr>
<tr>
<td>Total Bank Facilities</td>
<td>333.46 (Rs. Three Hundred Thirty-Three Crore and Forty-Six Lakhs Only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to Keventer Agro Limited (KAL) continues to derive strength from the experienced promoters with long track record, diversified revenue profile, established market position in the beverage and dairy segment with strong marketing and distribution network, stable financial performance in FY20 (refers to the period from April 1 to March 31) and H1FY21 (Provisional) and successful completion of capex. The ratings are however, constrained by moderate capacity utilization in FY20 and H1FY21, fortunes of beverage segment linked to its principal Parle Agro Pvt Ltd (PAPL), moderate capital structure and gearing ratios, susceptibility of profit margins to volatility in input prices and intense competition from large private players, cooperatives, and unorganized sector in dairy segment.

Rating Sensitivities

Positive Factors
- Growth in scale of operations as marked by total operating income of above Rs.1,100 cr on a sustained basis.
- Increase in profitability margins as marked by PBILDT and PAT margins of above 7.50% and 1.00% respectively on sustained basis.

Negative Factors
- Any major debt funded CAPEX plan leading to deterioration in capital structure as marked by overall gearing ratio above 3 times.
- Decline in coverage indicators as marked by interest coverage ratio below 1.5x.
- Any major liability arising out of ongoing litigation w.r.t acquisition of Metro Dairy Limited’s (MDL) stake from Government of West Bengal.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoter with long track record
Shri Mahendra Kumar Jalan (aged around 70 years), the promoter and erstwhile Chairman of the group, had varied interests in steel, food processing, dairy, horticulture, real estate and port sectors. However, he has stepped down from the board in January 2019 and his son has assumed the role of being the Chairman of the group. Shri Mayank Jalan (son of Shri M. K. Jalan), MD of KAL, is a Graduate from London School of Economics and has been spearheading the expansion plans of the company since 2004. KAL has been operating for over three decades and is an established name in Eastern India.

Diversified revenue profile
KAL is diversified in various segments such as beverages, sale of milk & milk products, trading of fruit pulp & banana, rental income and income from job work. Dairy segment and beverage segment constitute 40% and 34% respectively of the total income from operations in FY20.

**Established market position in the beverage and dairy segment having strong marketing and distribution network.**

KAL has a strong distribution and marketing infrastructure in Eastern India. It has a network of around 35 super-distributors, 700 distributors, and 110,000 retailers, reaching almost all parts of the region. This vast network has been associated with the company for several years, and has been growing continuously and is one of its key strengths.

The pasteurised milk and curd are dispatched through distributors and retailers mainly in Kolkata and its suburban regions, North 24 Pargana, South 24, Pargana, Howrah, Hoogly, Midnapore, Bardhaman and Birbhum. The ice-cream is dispatched through distributors in most of the regions of West Bengal and to other states such as Sikkim, Bihar, Odisha, Jharkhand and Bhutan.

**Stable financial performance in FY20 and H1FY21**

KAL’s income from operations has increased from Rs.884 cr in FY19 to Rs.949 cr in FY20 on account of increase in sales in dairy and beverage segments. Even though the beverages segments profitability improved due to higher demand, the overall PBILDT margin moderated from 7.39% in FY19 to 4.96% in FY20 due to steep increase in prices of raw materials (mainly Skimmed Milk Powder) in the dairy segment. KAL reported a PBT of Rs 1.68 cr in FY20 vis-à-vis Rs 7.74 cr in FY19 on account of increase in capital charges in FY20. PAT Margin remained stable at 0.36 % in FY20 vis-à-vis 0.35% in FY19. Further, the company reported TOI and PBILDT of Rs 538.75 cr and Rs.28.72 cr respectively in H1FY21. Performance in H1FY21 was impacted due to the impact of Covid 19 and lockdown restrictions.

**Successful completion of capex**

The company has successfully completed an expansion of new fruit juice lines for Appy Fiz and pet bottle for Frooti. The said project has commenced operation in Feb ‘20. Further, the dairy segment has successfully completed a capex to modernize its existing equipment’s, expansion of its warehousing and other facilities for operational efficiencies to reduce its idle time.

**Key Rating Weaknesses**

**Moderate capacity utilization In FY20 and H1FY21**

Capacity Utilisation (CU) of Fruit Juice moderated from 81% in FY19 to 72% in FY20 due to underutilization of enhanced capacity in FY20. However, volume of fruit juice produced increased y-o-y. CU for milk and ice cream remained stable in FY20 as compared to FY19. In H1FY21, CU of all of the products was impacted due to lower demand on account of Covid 19 pandemic.

**Fortunes of Beverage segment linked to the fortunes of its principal PAPL**

Around 35% of TOI of KAL is derived from bottling of fruit juice and water for brand Frooti, Appy, Appy Fizz & Bailey (franchisee of PAPL). PAPL regularly introduces innovative products, differentiators and refreshers, and builds on its reach and distribution to sustain market share as well as profitability as increasing focus on health and growing popularity of fruit juice products have led to other established FMCG players launching products with similar positioning of current market players. As a result of increasing competition, PAPL needs to focus on higher advertising and promotion expenditure and also innovate in terms of packaging and bringing on refreshes to keep established its brand and market position.

**Moderate capital structure and gearing ratios**

Capital structure and debt protection metrics, as marked by overall gearing and Total debt/GCA has witnessed deterioration in FY20 over FY19 on account of increase in total debt (mainly term loans). Increase in term loan pertains to the CAPEX incurred for beverage segment and dairy segment. Overall gearing ratio of the company increased from 2.17x as on March 31, 2019 to 2.37x as on March 31, 2020. Also, TDGCA deteriorated from 12.15x in FY19 to 19.80x in FY20 on account of lower cash accruals.

**Susceptibility of profit margins to volatility in input prices**

Vulnerability of KAL’s profitability to increase in input costs and its limited ability to pass on such increases to the buyers is prevalent in both the fruit juice and packaged drinking water segments. The MRP of these products is determined by PAPL, which avoids frequent price revisions in order to sustain & retain growth. However, in the case of a significant escalation in raw material costs, PAPL, in consultation with its franchisees, increases prices suitably such that it passes on to the customer.
In the dairy segment, the prices of raw material – skimmed milk powder (SMP) have been very volatile in last few years, especially sharp increase witnessed in FY20. This led to the significant increase in raw material prices, which led to deterioration in PBILDT Margin. KAL has also increased its MRP of the products during the period so as to reflect the increase in price of raw materials and to pass on to the customers. However, in the current year, SMP prices have moderated a from its highs.

**Biological, natural and operational risks associated with a milk procurement network**
There are various risks that are associated with a milk procurement chain, which is the mode of operation of milk industry in India. The quality and quantity of milk is also depended on biological factors like the genetic quality of the milking animal. In addition to the above risks there also exists an operational risk such as handling and transportation of milk that may have an impact on the quality. KAL, however, undertakes various quality control measures regulated by professionals like microbe testing at various stages from collection to packaging and dispatch which helps mitigate the above risks.

**Liquidity:** Adequate
The cash accrual was Rs.21.18 cr in FY20 as against debt repayment obligations of Rs. 13.29 cr in FY20. The average monthly utilization of fund based working capital limit stood at ~78% during last 12 months ending on Dec 2020. KAL has not opted for any moratorium. However, the company has opted for Covid 19 emergency line of credit of Rs 1.5 cr coupled with Guaranteed Emergency Line of Credit of Rs 38.1 cr. In Mar’21, KAL had made prepayment of debt obligation to the tune of Rs 19.01 cr which was due on FY22. The company has free cash and cash equivalent balance of Rs 8.48 crore as on Mar’20.

**Analytical approach:** Standalone

**Applicable Criteria**
Criteria on assigning Outlook & Credit watch to Credit Ratings
Criteria for Short Term Instruments
CARE’s Policy on Default Recognition
Financial ratios – Non-Financial Sector
CARE’s Methodology - Manufacturing Companies
Rating Methodology – Wholesale Trading
Liquidity Analysis of Non-Financial Sector Entities

**About the Company**
Keventer Agro Limited (KAL), the flagship company of the Keventer Group, is engaged in FMCG (beverages related), dairy and agro-related businesses. The company was established in 1986 as a franchisee for Parle Agro Pvt Ltd. Presently, KAL is involved in the manufacturing and marketing of PAPL’s beverage brands mainly Frooti, Appy, Appy Fizz and Bailey in Eastern India. The company is also engaged in agro-commodity exports. Mango pulp, sesame seeds, confectionaries and spices are the primary items for export. The dairy business of the group was integrated with the company post-merger with wholly owned subsidiary Metro Diary Limited (MDL). In July 2017, KAL had acquired the 47% stake held by West Bengal Co-operative Milk Producers Federation Limited (WBCMPF), making MDL a wholly owned subsidiary of KAL. The merger was approved by National Company Law Tribunal (NCLT) vide order dated Feb 10, 2020 from appointed date April 01, 2018. The business of MDL includes processing of milk & milk related products. The dairy products are marketed under the brand names Metro, Diet, Go and Rich. KAL also earns rental income through land leased out for warehouse operations and is also engaged in contract manufacturing of ITC’s ‘Yippee Instant Noodles’ since FY12.

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY19 (A)</th>
<th>FY20 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>884.47</td>
<td>949.05</td>
</tr>
<tr>
<td>PBILDT</td>
<td>65.32</td>
<td>47.08</td>
</tr>
<tr>
<td>PAT</td>
<td>3.13</td>
<td>3.42</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>2.17</td>
<td>2.37</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>2.58</td>
<td>1.89</td>
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</table>

A: Audited

**Status of non-cooperation with previous CRA:** ICRA has suspended its rating vide press release dated December 30, 2015 on account of ICRA’s inability to carry out a rating surveillance in the absence of the requisite information from the entity.
Press Release

Any other information: NA
Rating History for last three years: Please refer Annexure-2
Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-based - LT-Term Loan</td>
<td>-</td>
<td>-</td>
<td>Mar’27</td>
<td>178.31</td>
<td>CARE BBB; Stable</td>
</tr>
<tr>
<td>Fund-based - LT/ ST-CC/PC/Bill Discounting</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>155.15</td>
<td>CARE BBB; Stable / CARE A3</td>
</tr>
</tbody>
</table>

Annexure-2: Rating History of last three years

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Type</th>
<th>Amount Outstanding (Rs. crore)</th>
<th>Current Ratings</th>
<th>Date(s) &amp; Rating(s) assigned in 2020-2021</th>
<th>Date(s) &amp; Rating(s) assigned in 2019-2020</th>
<th>Date(s) &amp; Rating(s) assigned in 2018-2019</th>
<th>Date(s) &amp; Rating(s) assigned in 2017-2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fund-based - LT-Term Loan</td>
<td>LT</td>
<td>178.31</td>
<td>CARE BBB; Stable</td>
<td>1)CARE BBB; Stable (03-Apr-20)</td>
<td>1)CARE BBB; Stable (04-Apr-19)</td>
<td>-</td>
<td>1)CARE BBB; Stable (01-Dec-17)</td>
</tr>
<tr>
<td>2.</td>
<td>Fund-based - LT-Cash Credit</td>
<td>LT</td>
<td>28.00</td>
<td>CARE BBB; Stable</td>
<td>-</td>
<td>1)CARE BBB; Stable (04-Apr-19)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3.</td>
<td>Non-fund-based - ST-Letter of credit</td>
<td>ST</td>
<td>25.00</td>
<td>CARE A3</td>
<td>-</td>
<td>1)CARE A3 (04-Apr-19)</td>
<td>-</td>
<td>1)CARE A3 (01-Dec-17)</td>
</tr>
<tr>
<td>4.</td>
<td>Non-fund-based - ST-Bank Guarantees</td>
<td>ST</td>
<td>2.50</td>
<td>CARE A3</td>
<td>-</td>
<td>1)CARE A3 (04-Apr-19)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5.</td>
<td>Fund-based - ST-EPC/PSC</td>
<td>ST</td>
<td>20.40</td>
<td>CARE A3</td>
<td>-</td>
<td>1)CARE A3 (04-Apr-19)</td>
<td>-</td>
<td>1)CARE A3 (01-Dec-17)</td>
</tr>
<tr>
<td>6.</td>
<td>Fund-based - LT/ ST-CC/PC/Bill Discounting</td>
<td>LT/ST</td>
<td>155.15</td>
<td>CARE BBB; Stable / CARE A3</td>
<td>1)CARE BBB; Stable / CARE A3 (03-Apr-20)</td>
<td>1)CARE BBB; Stable / CARE A3 (04-Apr-19)</td>
<td>-</td>
<td>1)CARE BBB; Stable / CARE A3 (01-Dec-17)</td>
</tr>
</tbody>
</table>

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA
Press Release

Annexure 4: Complexity level of various instruments rated for this company

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument</th>
<th>Complexity Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fund-based - LT- Term Loan</td>
<td>Simple</td>
</tr>
<tr>
<td>2.</td>
<td>Fund-based - LT/ ST-CC/PC/Bill Discounting</td>
<td>Simple</td>
</tr>
</tbody>
</table>

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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