Lakshya Food India Limited

April 23, 2018

Rating

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Ratings¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facilities</td>
<td>26</td>
<td>CARE BB; Stable [Double B; Outlook: Stable]</td>
<td>Assigned</td>
</tr>
<tr>
<td>Total Facilities</td>
<td>26 (Rupees Twenty Six crore only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Lakshya Food India Limited (LFIL) is constrained by its fluctuating scale of operations, low profitability margins and working capital intensive nature of operations. The rating is further constrained by the seasonal nature of operations, presence in a highly fragmented & competitive industry and susceptibility to changes in government policies & environmental conditions.

The rating, however, derives strength from the established procurement sources with self-owned dairy farm and established selling network, experienced promoters, equity infusion in the company during FY18 (refers to the period April 01 to March 31), comfortable & improving capital structure and satisfactory debt coverage indicators.

Going forward, the ability of the company to increase its scale of operations while improving the profitability margins and the overall solvency position and managing the working capital requirements efficiently shall remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

**Fluctuating scale of operations and low profitability margins:** The total operating income of the company has remained fluctuating in nature. Though the operating income declined by ~11% in FY16, the same grew (though marginally) to Rs.154.24 Cr. in FY17. In FY18, till March 30, 2018 (Prov.), the company has achieved a total operating income of ~Rs.138.48 crore. Although, the profitability margins of the company remained low, the same improved in FY17 owing to higher contribution of better-margin giving value added products, to the total income.

**Working capital intensive nature of operations:** The operating cycle of the company stood at elongated around 84 days as on March 31, 2017. The average cash credit limit utilisation remained ~87% for the 12 months period ended Feb-18.

**Seasonal nature of operations:** India being a tropical country renders a hot and humid climate for the animals and thus there is a fluctuation in the milk production. There is a flush season in the cooler parts of the year whereas the production goes down in the warmer months. LFIL converts the surplus milk during November-April (flush season) into ghee, skimmed milk powder, leading to high inventory/finished goods so as to maintain the continuous supply of products round the year. This leads to increased working capital requirement during the period leading to high overall gearing at year end.

**Highly fragmented industry with intense competition from large number of players:** LFIL faces stiff competition in the dairy segment from established brands (such as Verka, Vita, etc.) in the organized market and independent milk vendors in the unorganized market. On the liquid milk front also, competition gets strong with the presence of unorganized players and independent milk vendors leading to pricing pressures.

¹Complete definitions of the ratings assigned are available at www.careratings.com and other CARE publications


**Sensitivity to changes in government policies and environmental conditions:** The dairy industry has low profitability margins as raw material costs (milk) form significant portion of the total costs. Milk supply and its prices are exposed to several external risks like government policies, cattle diseases, yield etc. Any fluctuation in prices of milk will have a direct impact on the profitability margins of the company.

**Key Rating Strengths**

**Experienced promoters:** LFIL was incorporated in 2007. Mr. Baljeet Singh Redhu, who is the managing director of the company, has been engaged in the dairy and poultry business for almost two decades through other group concerns. The other directors of the company include Mr. Pardeep Singh Redhu having ~10 years of industry experience. Mr. Pardeep Singh has done a Diploma in Dairy science from USA. Mr. Joel Rupani is a Bachelor of Science in Food Technology from Wisconsin, United States of America (USA) and looks after the production domain of the company. Lakshman Joukani is a Master in Science in International Marketing from United Kingdom (UK) and looks after the sales and marketing domain of the company. The promoters are assisted by a team of professionals which are highly experienced in their respective domains.

**Equity infusion in the company during FY18:** In Oct-2017, the company received an investment of Rs.16 cr. from two Venture Capitalists (VC) - Bellamooch Ventures LLP and Lalsham Ventures LLP, in the form of equity share capital for which 12.34 lacs additional shares were allotted by increasing the authorized share capital of LFIL. The capital brought in is being utilized for increasing the installed capacity of curd processing unit from 25,000 kg per day to 50,000 kg per day and replacement of old livestock with new and high yielding livestock.

**Comfortable & improving capital structure and satisfactory debt coverage indicators:** The capital structure of the company has remained comfortable marked by overall gearing ratio of 0.83x, as on March 31, 2017 which improved from previous year’s levels on account of increase in net worth due to accreted profits and lower utilization of working capital limits. The debt coverage indicators of the company remained satisfactory and also improved from previous year’s levels on account of lower utilisation of working capital limits.

**Established procurement sources with self-owned dairy farm:** LFIL has adequate arrangements in place for procurement of milk. The company owns and operates with dairy farm with 1400 cattle producing around 40 lac liters milk per annum. Further, the company procures milk directly from farmers instead of contractors to ensure the quality of milk. The company procures approximately 250 lac liters milk per annum through its 890 Village level centres (VLCs) located primarily in milk surplus region of Haryana.

**Established selling network:** The company is engaged in the selling of various value added products and packed milk under the brand name “Lakshya”. The brand is well accepted in Haryana and nearby markets of Punjab, Chandigarh and Himachal Pradesh. Furthermore, LFIL has a strong distribution network with 100+ distributors and 200+ booths in Haryana, Chandigarh Tri-city and Himachal Pradesh.

**Analytical Approach:** Standalone

**Applicable Criteria**

- [Criteria on assigning Outlook to Credit Ratings](#)
- [Financial ratios – Non-Financial Sector](#)
- [CARE’s methodology for manufacturing companies](#)
- [CARE’s policy on default recognition](#)

**About the Company**

Haryana-based, LFIL was setup in 2007 as a private limited company. However, it was reconstituted as a public limited company in 2008. LFIL is promoted by Mr. Baljit Singh Redhu and his nephew Mr. Pardeep Singh Redhu. The company has a dairy farm with around 1400 cattle and a milk-processing unit in Jind (Haryana) with an installed capacity of processing raw milk of 1.5 lakh liters per day (LLPD). It sells dairy products, such as pasteurised milk, ghee, butter, curd, paneer,
flavoured milk and ice-cream, under the brand name- ‘Lakshya’. LFIL is an ISO 22000-2005 certified company for the purpose of Food Safety Management System.

Group concerns of the company include Redhu Hatcheries Private Limited, Redhu Farms Private Limited and JM Feed Mills Private Limited, engaged in poultry business.

<table>
<thead>
<tr>
<th>Brief Financials (Rs. crore)</th>
<th>FY16 (A)</th>
<th>FY17 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>151.47</td>
<td>154.24</td>
</tr>
<tr>
<td>PBILDT</td>
<td>6.96</td>
<td>7.83</td>
</tr>
<tr>
<td>PAT</td>
<td>0.53</td>
<td>1.06</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>0.99</td>
<td>0.83</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>1.74</td>
<td>2.15</td>
</tr>
</tbody>
</table>

*A: Audited*

**Status of non-cooperation with previous CRA:** CRISIL vide its press release dated April 29, 2016 has suspended its ratings on the bank facilities of LFIL on account of non-cooperation by LFIL with CRISIL’s effort to undertake a review of ratings outstanding.

**Any other information:** NA

**Rating History for last three years:** Please refer Annexure-2

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

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**For detailed Rationale Report and subscription information, please contact us at** www.careratings.com

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### 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>
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</thead>
<tbody>
<tr>
<td>Fund-based - LT-Cash Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>26.00</td>
<td>CARE BB; Stable</td>
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### 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>Rating history</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Date(s) &amp; Rating(s) assigned in 2017-2018</td>
<td>Date(s) &amp; Rating(s) assigned in 2016-2017</td>
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<tr>
<td>1.</td>
<td>Fund-based - LT-Cash Credit</td>
<td>LT</td>
<td>26.00</td>
<td>CARE BB; Stable</td>
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</table>
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