



Press Release

RS Foods **February 08, 2024**

Ratings

Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long-Term Bank Facilities	64.64	IVR BBB-; Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short-Term Bank Facilities	1.00	IVR A3 (IVR Single A Three)	Assigned	Simple
Total	65.64 (INR Sixty-five crore and sixty-four lakh only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of RS Foods derives comfort from its experienced promoters, strong distribution network and established milk procurement network. Further, the ratings also considered its improved scale of operation in FY23 and subsequently in 9MFY24 coupled with satisfactory infrastructure facilities and diversified revenue stream with growing focus in value added products segment which may lead to improve in profit margin going forward. However, these rating strengths remain partially offset by moderation in operating margin in FY23 and moderate financial risk profile marked by leveraged capital structure. Further, the ratings continue to remain constrained by its partnership nature of constitution, exposure to geographical concentration risk coupled with intense competition in the industry.

Key Rating Sensitivities:

Upward factors

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals and debt protection metrics.
- Improvement in capital structure with improvement in overall gearing to below 2x

Downward Factors

- Moderation in scale of operations and/or dip in profitability impacting the liquidity profile on a sustained basis.



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- Any moderation in the capital structure and debt protection metrics with moderation in the overall gearing to over 3x and/or interest coverage below 2.5x
- Moderation in the liquidity profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths:

- **Experienced promoters**

The partners of RS Foods have nearly a decade of experience with their longstanding presence in the dairy industry. The partners used to run a Dairy firm in the name of 'Shri Shyam Dairy' before incorporation of RS Foods. Later, after being incorporated as a partnership firm in 2015, RS Foods started its commercial operation in 2017 and engaged in processing and selling of milk and other dairy based products.

- **Established milk procurement network and infrastructure facilities**

The firm has a strong milk procurement network which comprises direct procurement from farmers, milk collection centres including a few certain centres who procure milk primarily for the firm and Bulk Milk Coolers. Further, it procures milk from different states such as Jharkhand, Odisha, West Bengal, Bihar, Uttar Pradesh at different times based on the prices and demand supply scenario. Some of the major suppliers are Indapur Dairy & Milk Products, Nature Delight Dairy, Kashi Viswanath, Real Dairy Industries Pvt Ltd etc. In addition, RS Foods have 15 owned tankers with a capacity of 27KL each and 8 insulators tankers for transportation of milk.

- **Diversified revenue stream with growing focus in value added products segment**

RS Foods has a wide portfolio of customers. The firm offers a wide range of milk and milk products like ghee, paneer, curd, buttermilk, lassi, milk powder, etc. and has its presence in the product for daily use which enable it to cater to a broader customer base and diversify its revenue. Further, RS Foods is also focusing on increasing sale of value-added products like Ghee and power milk to reduce its dependence on raw milk sales.

- **Strong distribution network**

The firm sells milk through B2B as well as B2C routes. Hence the client profile is very diverse as approximately 50% of the milk is sold through B2B route and rest 50% is sold as B2C. In B2B the firm directly sells processed milk to organized and many reputed players. In



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addition, the firm also sells pouched milk through B2C vertical through distributors in the state of Jharkhand. At present, the firm has 15 distributors for the entire Jharkhand state, each distributor has 30-35 sub distributors. The pouched milk is sold under the brand “Daily Plus”. In addition, ghee and milk powder are also sold under the brand “Daily Plus” in retail packages.

- **Improvement in scale of operation**

The total operating income of the firm has witnessed a growing trend over the past three years. The operating income has registered a y-o-y growth of ~87% and the topline stood at Rs.227.44 crore in FY23 against Rs.121.58 crore of FY22. The growth in revenue is mainly driven by higher demand of dairy products leading to higher volume of sales backed by improved capacity utilization coupled with increase in average sales realization of all the products of the firm. Till December 2023, the firm has managed to churn out revenue of ~Rs.206.53 crore.

Key Rating Weaknesses:

- **Partnership nature of constitution**

Given RS Food's constitution as a partnership firm, it is exposed to the discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency of the partners. Moreover, the partnership nature limits its flexibility to tap external channels of financing.

- **Moderation in operating margin in FY23 though improvement expected in the near term**

The absolute EBITDA moderated and stood at Rs.7.45 crore in FY23 against Rs.8.17 crore in FY22. Further, the EBITDA margin has also dampened from 6.72% in FY22 to 3.28% in FY23. The moderation in the operating margin is on account of higher cost of Milk (main raw material) in FY23 in comparison to FY22. With improvement in operational efficiency on the back of recently concluded capex, the firm has witnessed rise in its production coupled with savings in power cost. Moreover, in H1FY24, the milk prices also remained stable. On the back of these, the firm is expecting a rise in its EBITDA margin in FY24.

- **Moderate financial risk profile marked by leveraged capital structure**

The capital structure of the firm has remained moderate as on March 31, 2023. During FY23, the leverage ratios of the firm moderated due to rise in its debt level in order to fund its recently concluded capex. Owing to increase in debt in the capital structure, both the long-



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term debt to equity and the overall gearing of the firm has moderated to 2.22x and at 2.85x respectively as on March 31, 2023, against 0.52x and 1.33x respectively as on March 31, 2022. Total indebtedness of the firm as reflected by TOL/TNW also moderated to 3.72x as on March 31, 2023. Affected by lower absolute EBITDA and an increase in finance costs during the period, the debt protection matrices as reflected by the interest coverage ratio moderated in FY23 though remained comfortable at 3.08x against 4.36x in FY22. Total debt to EBITDA and Total debt to GCA (adjusted) both declined and remained stretched at 7.97x and 17.02 years respectively as on March 31, 2023.

- **Highly competitive industry**

The dairy industry is highly fragmented with large number of unorganised players. The company also faces competition from some of the big and established players in the organised segment. The fragmented and competitive nature of the industry limits the company's ability to significantly improve the margins due to limited bargaining power. Also, ensuring competitive remuneration to the farmers for procurement of milk would be a key sensitivity for maintaining a steady supply chain.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Manufacturing Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

[Criteria on Default Recognition](#)

[Criteria on Complexity](#)

Liquidity: Adequate

The liquidity profile of RS Foods is expected to remain adequate marked by its expected satisfactory cash accrual in the range of ~Rs.11 crore to Rs.17 crore during FY24-FY26 vis a-vis its debt repayment obligations ranging between Rs.5.07 crore to Rs.7.55 crore during the aforesaid period. Further, the current ratio of the firm stood at 1.17 times as on March 31, 2023 against 1.34 times as on March 31, 2022. The cash and bank balance of the firm stood at Rs.1.67 Crore as on December 31, 2023. Moreover, the average CC utilization of the firm for past 12 months ended October 2023 stood at ~59% indicating adequate liquidity cushion to the firm.



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About the Firm

Incorporated in August 2015, Ranchi based RS Foods was promoted by four partners, namely Mr. Amit Agarwal, Mr. Ajay Kumar Agarwal, Mrs. Amita Agarwal, and Mrs. Amita Agarwal with equal profit-sharing percentage. The firm is engaged in processing and selling of milk and other dairy based products such as ghee, paneer, curd, buttermilk, lassi, milk powder, etc. Before incorporation of RS Foods, the partners used to run a Dairy firm in the name of 'Shri Shyam Dairy', which helped them to gain more than a decade of experience in this line of business. RS Foods is a FSSAI central licensed dairy firm, and it started its commercial production from April, 2017. The processing unit of the firm is located at Village-Baheya in Angra block. The firm sells ghee and milk powder in bulk whereas it sells other products in retail packages with the brand name of 'Daily Plus' within the state of Jharkhand.

Financials of RS Foods (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	121.58	227.44
EBITDA	8.17	7.45
PAT	3.53	5.80
Total Debt	24.39	59.39
Tangible Net worth	18.27	20.84
EBITDA Margin (%)	6.72	3.28
PAT Margin (%)	2.91	2.50
Overall Gearing Ratio (x)	1.33	2.85
Interest Coverage	4.36	3.08

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Cash Credit	Long	30.00	IVR BBB-/	-	-	-



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		Type	Amount outstanding (Rs. Cr.)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
		Term		Stable			
2.	Term Loan	Long Term	34.64	IVR BBB-/ Stable	-	-	-
3.	Bank Guarantee	Short Term	1.00	IVR A3	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Cr)	Rating Assigned/ Outlook
Cash Credit	-	-	-	30.00	IVR BBB-/ Stable
Term Loan	-	-	Aug 2030	34.64	IVR BBB-/ Stable
Bank Guarantee	-	-	-	1.00	IVR A3

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-RSFoods-feb24.pdf>

Annexure 3: List of companies considered for consolidated analysis: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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