

Press Release

Sheetal Cool Products Ltd.

February 26, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Long Term Bank Facilities – Term Loan	40.25	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)
2.	Long Term Bank Facilities – Cash Credit	9.75	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)
	Total	50.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Sheetal Cool Products Ltd (SCPL) derives comfort from its experienced management with long track record of its operations, established milk procurement network and infrastructure facilities, strong brand name, diversified revenue stream with growing focus in value added products segment and its strong distribution network. The rating also positively factor in its continuous growth in total operating income with comfortable debt coverage indicators, comfortable operating cycle and Positive demand outlook for ice cream industry. The rating strengths, however, are tempered by its thin profit margin with exposure to volatility in milk procurement price and moderate capital structure. Further, the rating also factor in susceptibility of business operations to changes in government policies and environmental conditions, intense competition and inherent risks in the food industry.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations with improvement in profitability and liquidity on a sustained basis, sustenance of the capital structure and management of working capital requirement efficiently may lead to a positive rating action

Downward Rating Factors

- Any deterioration in scale of operations and/or profitability, impairment in debt protection metrics and/ or liquidity profile may lead to a negative rating action.

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced management and long track record of operations

SCPL has long track record of operation of around two decades as it had started its commercial operation in 2000. The promoters of SCPL are associated with the company since its inception and have an experience of around two decades in the dairy industry. They are ably supported by well qualified personnel.

Established milk procurement network and infrastructure facilities

SCPL has been in ice-cream business for around two decades and has established relationship with milk farmers and other traders in its area of operation ensuring consistent supplies of good quality raw milk and other raw materials. Although SCPL does not have any long-term contract with its suppliers, long relationship with farmers/agents, regular advance and timely payment, supply of good quality raw-material and in-house cold storages has helped to ensure continuous supply. The company has established strong logistic arrangements with a fleet of more than 50 owned cars.

Strong brand name

SCPL markets its ice cream, other milk products and snacks under the brand name of “Sheetal” and “J’adore”. These brands are well established in Gujarat, Maharashtra, Rajasthan region and its nearby areas driven by its long presence in the market.

Diversified revenue stream with growing focus in value added products segment

SCPL has a wide portfolio of finished products offering a wide range of ice creams, dairy products (lassi & masko, milk, buttermilk, curd), mango ras, sweet items and bakery items that enable it to cater to a broader customer base and diversify its revenue. Further, SCPL is also focusing on increasing sale of value-added products like fryums & wafers, namkeens also frozen foods.

Strong distribution network

SCPL uses its own marketing network for its ice-creams and other products across Gujarat, Maharashtra, Rajasthan and Madhya Pradesh area and resorts to direct selling to retailers/caterers located in these areas. The Company has an established network of 405 distributors and 55 super stockiest in these areas and presently, deals with around 1000+ retailers. With the addition of frozen products (like Mango Milkshake, Basundi, Green Peas,

Pizza, Vadapav, Pav Bhaji, Chole Bhature, French Fries etc.) in the product array, having relatively longer shelf lives.

Continuous growth in total operating income

SCPL's total operating income has grown at a CAGR of ~24% during FY16-FY19 and witnessed an increase of 12% y-o-y to Rs.233.63 crore in FY19 as against Rs.206.97 crore in FY18. This is driven by increased revenue from the sale of frozen items. Also, the company booked revenue of Rs.4.86 crore from the electricity generated through its windmills. Also, SCPL already has achieved a total operating income of Rs.206 crore in 10MFY20.

Moderate gearing with comfortable debt coverage indicators

The company's overall gearing and Long term debt to equity ratio stood moderate at 1.18x and 1.05x respectively as on March 31, 2019. The Total outside liabilities to Tangible net worth as on March 31, 2019 stood comfortable at 2.73x. The debt protection parameters of the company also remained satisfactory with a comfortable interest coverage ratio of 5.42x and moderate Total debt to Gross cash accruals of 3.56x in FY19.

Comfortable operating cycle

Operating cycle of the company stood comfortable as marked by 25 days in FY19. SCPL collection period stood at mere 10 days in FY19 as against its creditor days of 49. SCPL being a reputed and trusted name in the market demands extra credit days from its creditors giving comfort to its working capital requirements. SCPL's inventory holding days stood at 63 for FY19 which mainly consisted of raw-materials ensuring smooth production process.

Positive demand outlook for ice cream industry

Indian ice cream industry is one of the fastest growing segments of the dairy or food processing industry. India has a low per capita ice cream consumption of ice cream at 400 ml as compared with per capita consumption of ice cream of 22,000 ml in the United States and 3,000 ml in China. With the improving cold chain infrastructure in the country coupled with increasing disposable income and the changing lifestyle, the sector has great potential for growth. The ice cream industry in India generated revenue of more than USD 1.5 billion in 2016 and is projected to generate revenue of approximately USD 3.4 billion by 2021. Lately, frozen desserts which are made out of vegetable oils have been eating into the market share of ice cream.

Key Rating Weaknesses:

Thin profit margin with exposure to volatility in milk procurement price



Infomerics Valuation And Rating Pvt. Ltd.

Operating profitability is susceptible to inherent volatility in milk procurement prices. SCPL's operating margin remained stable and witnessed gradual improvement during FY17-FY19. However, the PAT margin of the company moderated from 1.98% in FY18 to 0.87% in FY19 due to increase in finance charges attributable to increase in utilisation of bank borrowings to fund the enhanced scale of operations and new term loan availed for capacity expansion and purchase of vehicles to establish own fleet of vehicles for transportation of its finished goods.

Susceptibility to changes in government policies and environmental conditions

Milk prices are sensitive to government policies through as marked by Minimum Support Price and other regulations. Milk being a major raw-material for SCPL makes it susceptible to government regulations and to risks related to volatility in global milk powder prices. Also, milk procurement is vulnerable to environmental conditions, such as bovine diseases. On the other hand, sales of ice cream are subject to seasonal variations and are weather dependent. The company generally experience higher sales in summer months and in festive season. Further, erratic weather condition may affect the operating performance of the company.

Intense competition and inherent risks in food industry

Indian dairy industry is characterized by intense competition due to presence of many small to medium unorganized players, co-operatives along with large established players. Further, the company is exposed to various risks affecting the food and dairy industry including risk of contamination/ spoilage of raw materials. In addition to the above risks there also exists an operational risk such as handling and transportation of ice creams and milk product that may have an impact on the quality. The risk of contamination or deterioration exists at each stage of the production and delivery cycle which may result in damage of reputation, legal liability, may adversely affect the business prospects and consequently impact the financial performance. SCPL however, undertakes various quality control measures as in-house cold storages, proper microbe testing at different levels and many more which helps to mitigate the above risks.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate



Infomerics Valuation And Rating Pvt. Ltd.

The company is expected to generate cash accrual in the range of Rs.24-28 crore during FY20-FY22 which is adequate to serve its debt repayment obligations during the aforesaid period which is in the range of Rs.5-8 crore. Its capex requirements are low and expected to be funded using internal accruals for which it has sufficient headroom. Moreover, its bank limits are utilized to the extent of ~83% during the past 12 months ended January, 2020 indicating a moderate liquidity buffer.

About the Company

Sheetal Cool Products Limited (SCPL) was established in the year 2000 as a proprietorship firm by late Mr. Jagdishbhai D. Bhuva. Subsequently in order to manage its growing scale of business, it was reconstituted as a partnership firm in the name of M/s. Shital Cool Products, and then as a private-limited company as Sheetal Cool Products (P) Ltd. in the year 2013. Later on, in the year 2018, the company got listed in Bombay Stock Exchange (SME) and the name of the company changed to Sheetal Cool Products Limited (SCPL). The company manufactures ice-cream, milk and milk products (lassi, buttermilk, and flavored milk), frozen foods, confectionery items, and snacks.

Financials:

(Rs. crore)

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	206.97	233.63
EBITDA	14.15	18.79
PAT	4.11	2.07
Total Debt	17.33	45.82
Tangible Net worth	36.82	38.89
EBITDA Margin (%)	6.84	8.04
PAT Margin (%)	1.98	0.87
Overall Gearing Ratio (x)	0.47	1.18

*as per Infomerics standards

Status of non-cooperation with previous CRA: CRISIL BB+/Stable; INC in March, 2019

Any other information: N.A

Rating History for last three years: Not applicable

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Cash Credit	Long Term	9.75	IVR BBB- /Stable	-	-	-
2.	Term Loan	Long Term	40.25	IVR BBB- /Stable	-	-	-

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. Archit Aggarwal Tel: (011) 24611910 Email: aaggarwal@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
---	---

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company’s long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an ‘as is where is’ basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	NA	NA	NA	9.75	IVR BBB-/ Stable Outlook
Long Term Bank Facilities – Term Loan	NA	NA	May, 2028	40.25	IVR BBB-/ Stable Outlook