



Press Release

Sheetal Cool Products Limited

April 05, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned	Rating Action
1	Long Term Bank Facilities- Term Loan	22.25 (Reduced from Rs. 40.25 crore)	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)	Re-affirmed
2	Long Term Bank Facilities- Cash Credit	27.75 (Enhanced from Rs. 10.00 crore)	IVR BBB-/Stable (IVR Triple B minus with Stable Outlook)	Re-affirmed
	Total	50.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings reaffirmed to the bank facilities of Sheetal Cool Products Limited (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 increasing profitability margins and moderate gearing with comfortable debt coverage indicators and comfortable operating cycle. The rating strengths, however, are tempered by susceptibility to changes in government policies and environmental conditions and intense competition and inherent risks in food industry.

Key Rating Sensitivities:

Upward Factors

- Growth in scale of operations with improvement on profitability leading to improvement in cash accruals on a sustained basis.
- Sustenance of the capital structure and improvement in debt protection metrics
- Improvement in the collection period leading to improvement in liquidity.

Downward Factors

- Moderation in operating revenue
- Elongation in the operating cycle impacting the liquidity.



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- Moderation in the capital structure

List of Key Rating Drivers with Detailed Description

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 Madhya Pradesh. The company is making its venture the ice-cream market of Karnataka State.

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 fryms & wafers, namkeens also frozen foods.



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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. 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 with increasing profitability margins

SCPL's total operating income has grown by 10% in FY20 to Rs. 258.93 crore from Rs. 233.63 crore in FY19. This is driven by increased revenue from the sale of Frozen and Ice Cream segment. SCPL's operating margin have improved in FY20 as witnessed by EBITDA and PAT margin at 12.55% and 3.77% from 8.08% and 0.88% in FY19 driven by better realization of expenses. The PAT margin was impacted in FY19 driven by the loss of Rs. 4.32 crore due to fire. Also, SCPL already has achieved a total operating income of Rs.131.52 crore in 9MFY21.

Moderate gearing with comfortable debt coverage indicators

The company's overall gearing and Long-term debt to equity ratio stood moderate at 1.07x and 0.87x respectively as on March 31, 2020. The Total outside liabilities to Tangible net worth as on March 31, 2020 stood comfortable at 2.57x. The debt protection parameters of the company also remained satisfactory with a comfortable interest coverage ratio of 6.96x and moderate Total debt to Gross cash accruals of 2.03x in FY20.

Comfortable operating cycle

Operating cycle of the company stood comfortable as marked by 46 days in FY20. SCPL collection period stood at 24-days in FY20 as against its creditor days of 53. SCPL being a reputed and trusted name in the market demands some extra credit days from its creditors giving comfort to its working capital requirements. SCPL's inventory holding days stood at 75 for FY20 which mainly consisted of raw-materials for its 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



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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 players offering frozen desserts in India are Kwality Walls, Vadilal, and Cream Bell. In India ice cream industry is mostly regional and there is a multitude of brands focusing on only one or two districts or in some case only one state. There are very few national brands and the major reason behind slow growth of the smaller players is the high perishability of ice cream products.

Key Rating Weaknesses

Susceptibility to changes in government policies and environmental conditions

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. India is the largest producer of milk in the world with a production of 176.35 million metric tonnes in FY20. The sector is largely dominated by the unorganised sector. Even with milk being a regional play, SCPL faces tough competition with the presence of large cooperatives and private players with Pan India network. However, SCPL is increasing its base in Madhya Pradesh by investing in diverse value-added products portfolio and brand building. 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



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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

The liquidity ratios of the company remained healthy with the current ratio at 1.36x as on March 31, 2020. The company has generated sufficient cash accrual of around Rs.25.55 crore in FY20 as against repayment of Rs.5.67 crore in FY20. The company is expected to generate cash accrual in the range of Rs.21-23 crore during FY21-FY23 which is satisfactory to serve its debt repayment obligations during the aforesaid period which is in the range of Rs.7.38-9.53 crore. However, its bank limits are utilized to the extent of ~93% during the past 12 months ended January 2021 indicating a low 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.



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Financials (Standalone):

(Rs. crore)

For the year ended* As on	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	233.63	258.93
EBITDA	18.87	32.50
PAT	2.07	9.81
Total Debt	45.82	51.80
Tangible Net worth	38.73	48.51
EBITDA Margin (%)	8.08	12.55
PAT Margin (%)	0.88	3.77
Overall Gearing Ratio (x)^	1.18	1.07

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 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.	Long Term Facilities – Term Loan	Long Term	22.25 (Reduced from Rs. 40.25 crore)	IVR BBB- /Stable Outlook	IVR BBB- /Stable Outlook	-	-
2.	Long Term Facilities – Cash Credit	Long Term	27.75 (Enhanced from Rs. 10.00 crore)	IVR BBB- /Stable	IVR BBB- /Stable Outlook	-	-



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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.

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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
Long Term Bank Facilities- Term Loan	-	-	FY26	22.25	IVR BBB-/Stable
Long Term Bank Facilities—Cash Credit	-	-	-	27.75	IVR BBB-/Stable