# Devyani Food Industries Limited

April 04, 2018

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long term Bank Facilities | 140.30 (reduced from Rs.143.90 Cr) | **CARE A-; Stable (Single A Minus; Outlook: Stable)** | Reaffirmed |
| Long/Short term Bank Facilities | 49.90 (Rs.49.90 crore) | **CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)** | Reaffirmed |
| Short term Bank Facilities | 5.0 (Rs.5.0 crore) | **CARE A2+ (A Two Plus)** | Reaffirmed |
| **Total** | **195.20 (Rs. One hundred Ninety Five Crore and twenty lac only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings for the bank facilities of Devyani Food Industries Ltd (DFIL) continue to derive strength from the strong promoter group having diversified presence across sectors and geographies, extensive experience of the promoters, established brand in the ice-cream industry with extensive distribution network and consistent growth in scale of operations. The ratings are, however, constrained by the risk associated with volatility of the raw material prices, competition in the ice-cream segment from the organized as well as unorganized players, seasonality associated with the business and capital-intensive nature of operations resulting in high gearing levels.

The ability of DFIL to recoup loans from group companies and improve its capital structure while effectively managing its working capital would be the key rating sensitivities. Furthermore, any new debt-funded expansion undertaken by the company and its funding pattern would be critical for the credit profile of the company.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Strong promoter group with diversified presence across sectors and countries***

DFIL is a part of the RJ Corp group promoted by Mr. Ravi Kant Jaipuria which has presence across diversified sectors, viz, food & beverages, education, Ice cream & dairy and healthcare. The group has been involved in food & beverages industry for more than two & a half decades. Apart from the ice cream business under DFIL, the RJ Corp group, through Varun Beverages Limited, has franchise rights from PepsiCo in parts of India, Nepal, Sri Lanka, Zambia, Morocco and Zimbabwe. The RJ Corp group is the largest franchisee for PepsiCo in India. The restaurant business of the group is consolidated under 'Devyani International Ltd' wherein the company is engaged into managing outlets of 'Pizza Hut', 'KFC', 'Costa Coffee' and 'Vaango' along with managing food courts in different parts of the country. The group also owns three schools operating as franchisees of Delhi Public School in Gurgaon & Jaipur.

***Established presence of promoters in ice cream segment***

The promoters forayed into ice cream business in 1992 with franchise rights of "Kwality Walls" from Hindustan Unilever Ltd (HUL). After having a decade of experience with HUL, they entered into the market with its own brand "Cream bell" in initial technical collaboration with "Candia" (France) in 2003 and has successfully established pan-India presence since then. The company markets a large variety of ice-creams including cups, sticks, bars, kulfis, tubs, large packs, cakes and novelty ice-creams such as 'Sach Much Aam' being one of the leading player in the market. The company largely caters to the consumer segment in the impulse purchase segment with small contribution from the bulk packs which helps DFIL in realizing higher profitability margins as compared to its peers.

***Established Brand with extensive distribution network***

DFIL started with the ice cream business in 2003 under the brand *"Cream bell"*. Over the years, Cream bell has established its presence on pan-India level with continued marketing and expansion across territories. Currently, Cream bell is present across 21 states with network of over 1295 dealers, nearly 46,000 retail outlets and approximately 12,000 pushcarts across India. The company has a presence across all regions viz. North Zone (55.54% contribution to revenue in FY17), West Zone (23.58%), East Zone (15.16%), South Zone (5.57%) and Overseas (0.15%). Cream bell sells its ice cream

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

through four major channels – Retail Shops, Pushcart Vendors, Parlors and Institutions in order to cater to wide customer segments and generate brand acceptance across various range of customers.

***Moderate financial profile***
DFIL's financial profile is characterized by continuous growth in scale of operations, moderate profitability margin and debt protection metrics albeit high overall gearing. Company's total operating income has grown at a compounded annual growth rate (CAGR) of approximately 10.66% over FY14-FY17 (refers to the period April 1 to March 31). Year on year, the same has grown by around 5.51% in FY17. The decline in the sales growth is on account of increased competition leading to decline in volume as well as realization growth. The PBILDT margin has declined from 19.90% in FY16 to 16.72% in FY17 on account of increase in raw materials consumed costs (Particularly sugar and palm kernel oil) and employee costs. Consequently, the PAT margin has declined from 5.02% in FY16 to 3.44% in FY17. However, the overall gearing reduced marginally to 2.20x as on March 31, 2017 (2.73x as on March 31, 2016) on account of scheduled repayment of debt and accretion of profits to net-worth.
During H1FY18 (Prov.), the company has achieved a total operating income of Rs.336.00 crore with PBT of Rs.21.55 crore as against an income of Rs.296.69 crore with PBT of Rs.38.66 crore in H1FY17 (Prov.).

**Key Rating Weaknesses**
***High exposure in other entities***
DFIL has investments in Subsidiary/JV/Associate entities of Rs.79.55 crore as on March 31, 2017 (P.Y. Rs.62.50 crore as on March 31, 2016). These are primarily investments in the JV Sameer Agriculture Livestock Ltd, Kenya (SAK). Further DFIL's exposure to other entities in the form of loans and advances which had decreased to Rs.57.67 crore as on March 31, 2017 has increased to Rs.205.93 crore as on February 28, 2018. As per the management, a part of these loans and advances will be recovered and used to repay the bank term loans and working capital demand loans during FY19.

***High volatility in prices of the raw materials***
The major raw materials for manufacture of ice cream are skimmed milk powder (SMP), butter, sugar, palm kernel oil etc. DFIL procures major raw materials from domestic market. The prices of key raw materials have consistently been rising over the years. Also, each year during November to January, the major raw material prices are at their lowest due to the dynamics of the dairy industry. DFIL focuses on procuring their entire requirement for the upcoming summer season during this period to avail the benefit of lower raw material prices. Increased price of raw materials has impacted the profitability of the company in FY18. However, the raw material prices have declined during the procurement season (H2FY18) and profitability is expected to be better in FY19.

***Seasonality of product and changing customer tastes & preferences***
The sales of the company are concentrated over the summer months, reflecting the seasonality of the business. Hence, DFIL's working capital intensity is at its peak level in the last quarter of the financial year as it has to accumulate raw material inventory for the upcoming summer season. The business is also susceptible to changing tastes of consumers. As such, the company has to constantly invest to come up with new products (flavors etc) in line with the industry as well as changing customer preferences. DFIL has an in-house team focused on new product development.

***Capital-intensive nature of business and current expansion***
Ice cream manufacturing and distribution industry is capital intensive in nature requiring investments in production facilities, innovative products in terms of flavors and packaging (which requires specialized machinery) as well as marketing assets {cold chains (owned/leased), deep freezers at retail outlets, refrigeration equipped deliver vehicles, push carts etc.}. DFIL's gross block as on March 31, 2017 stood at Rs.432.19 crore (P.Y. Rs.381.89 crore) including plant and machinery of Rs.191.19 crore (P.Y. Rs.167.15 crore) and marketing assets of Rs.145.23 crore (P.Y. Rs.122.31 crore). The company incurs regular capex of Rs. 30-40 crore annually most of which is on the marketing assets. DFIL has consistently incurred capital expenditure to enhance its capacities to meet the growing demand. During FY18, the company has completed setting up of ice-cream manufacturing and dairy processing unit at Asansol, West Bengal. The new manufacturing facility is expected to contribute from FY19 onwards as the ice-cream facility was established during the end of the peak season.

***Highly competitive industry***
There are a large number of big and medium ice-cream companies in India and innumerable small and seasonal companies engaged in ice-cream business. DFIL faces high competition from various brands like Amul, Kwality Walls, Mother Dairy, Vadilal, Dinshaw's, etc. In addition, DFIL faces competition from unorganized ice-cream manufactures at local levels. On account of the high competition, DFIL's ability to grow its volume and sustain the operating margins would remain critical for its prospects.

**Analytical approach:** Standalone

**Applicable Criteria**
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios – Non-Financial Sector](#)

**About the Company**
DFIL, incorporated in 1991, is engaged in the manufacturing and distribution of ice cream on pan-India basis under the brand "Cream bell". DFIL has four manufacturing facilities with 12.39 million litres per month (MLPM) capacity for manufacturing of Ice-cream and processing capacity for 50,000 Litres/day for dairy products (Poly Pack Milk, Dahi, Butter Milk and Paneer) situated at Baddi, Himachal Pradesh (2.80 MLPM), Ponda, Goa (1.93 MLPM), Kosi, U.P. (5.14 MLPM) and Asansol, West Bengal (Ice-cream- 2.52 MLPM and Dairy- 50000 litres/day) as on December 31, 2017. DFIL is a part of the RJ Corp Group which has presence across sectors like food, beverages, education, hospitality, dairy, etc.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---|---|
| Total operating income | 430.05 | 453.73 |
| PBILDT | 85.57 | 75.87 |
| PAT | 21.61 | 15.61 |
| Overall gearing (times) | 2.73 | 2.20 |
| Interest coverage (times) | 2.09 | 2.04 |

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**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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capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Cash Credit | - | - | - | 34.50 | CARE A-; Stable |
| Fund-based - LT-Term Loan | - | - | - | 105.80 | CARE A-; Stable |
| Fund-based - ST-Term loan | - | - | - | 5.00 | CARE A2+ |
| Non-fund-based - LT/ ST-BG/LC | - | - | - | 49.90 | CARE A-; Stable / CARE A2+ |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 |
| 1. | Fund-based - LT-Term Loan | LT | 105.80 | CARE A-; Stable | - | 1)CARE A-; Stable (28-Apr-17) | 1)CARE A- (27-May-16) | 1)CARE A- (27-Apr-15) |
| 2. | Fund-based - LT-Cash Credit | LT | 34.50 | CARE A-; Stable | - | 1)CARE A-; Stable (28-Apr-17) | 1)CARE A- (27-May-16) | 1)CARE A- (27-Apr-15) |
| 3. | Non-fund-based - LT/ ST-BG/LC | LT/ST | 49.90 | CARE A-; Stable / CARE A2+ | - | 1)CARE A-; Stable / CARE A2+ (28-Apr-17) | 1)CARE A- / CARE A2+ (27-May-16) | 1)CARE A- / CARE A2+ (27-Apr-15) |
| 4. | Fund-based - ST-Term loan | ST | 5.00 | CARE A2+ | - | 1)CARE A2+ (28-Apr-17) | 1)CARE A2+ (27-May-16) | 1)CARE A2+ (27-Apr-15) |

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