Devyani Food Industries Ltd

April 28, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	143.90 (reduced from Rs. 336.76 Cr)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long/Short term Bank Facilities	49.90 (enhanced from Rs. 45 crore)	CARE A-; Stable/CARE A2+ (Single A Minus; Outlook: Stable/A Two Plus)	Reaffirmed
Short term Bank Facilities	5.0 (reduced from Rs. 35 crore)	CARE A2+ (A Two Plus)	Reaffirmed
Total	**198.80 (Rs. One hundred Ninety Eight Crore and eighty lacs 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 moderate financial profile marked by consistent growth in scale of operations and moderate profitability margins and coverage indicators. 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 complete the ongoing project within the envisaged cost and time, recoup loans from other companies and improve its capital structure while effectively manage 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 R.K. Jaipuria (RKJ) which has presence across various related and unrelated sectors, viz, food & beverages, education, Ice cream & dairy, and stem cell banking. The group has been involved in food & beverages industry for more than four decades. Apart from the ice cream business under DFIL, the RJ Corp group has franchise rights from PepsiCo in India, Nepal, Sri Lanka, Maldives, Zambia, Mozambique and Morocco. The RJ Corp group is the largest bottler for PepsiCo in India. The restaurant business of the group is consolidated under 'Devyani International Ltd' wherein the company is engaged into running outlets of 'Pizza Hut', 'KFC', 'Costa Coffee' and 'Vaango' in different parts of the country. The group also owns two schools operating as franchises of Delhi Public School.

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, RKJ 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

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

bell is present across 20 states with network of over 1200 dealers and nearly 50,000 retail outlets across India. DFIL is also entering the Tamil Nadu region. The company has a market share of 14% in the organized market for Ice cream with presence across all regions viz. North Zone (33.90% contribution to revenue in FY16), West Zone (25.32%), Central Zone (20.51%), East Zone (13.99%), South Zone (6.21%) and Overseas (0.10%). Cream bell sells its ice cream through four major channels – Retail Shops, Pushcart Vendors, Parlours 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 23.40% over FY13-FY16 (refers to the period April 1 to March 31). Year on year, the same has grown by around 20% in FY16. However, PBILDT margin has improved to 25.27% in FY16 (13.59% in FY15) on account of reduction in prices of material consumed particularly Skimmed Milk Powder (SMP; which constituted 24% of the material cost during FY16) and sugar, increase in sales volume and sales realization and rationalization of overhead costs. Consequently, the PBILDT/Interest indicator was also improved to 2.84x for FY16 as against 1.46x for FY15. PAT was however, lower during FY16 as the overall profits for FY15 included the profit of Rs.67.92 crore on sale of its investment in JV in Sameer Agriculture Livestock Ltd (SAU; based in Uganda). The overall gearing however reduced marginally to 2.73x as on March 31, 2016 (3.08x as on March 31, 2016) and Total debt to Gross Cash Accruals reduced to 6.17x as on March 31, 2016 (23.56x as on March 31, 2015 excluding the extraordinary income during the year) due to higher accrual of profits.

During H1FY17 (Prov.), the company has achieved a total operating income of Rs.310.56 crore with PBT of Rs. 38.66 crore. DFIL has further reduced its debt in FY17 through recoupment of loans from other group entities. This, along with replacement of existing bank loans with new loans having longer tenure and lower interest has resulted in improvement of debt service coverage indicators.

Reducing exposure in other entities

DFIL has investments in Subsidiary/JV/Associate entities of Rs.62.48 crore as on March 31, 2016 (P.Y. Rs.62.48 crore as on March 31, 2015). These are primarily investments in the JV Sameer Agriculture Livestock Ltd, Kenya(SAK) and Devyani Enterprises Limited (DEL). Further DFIL's exposure to other entities in the form of loans and advances which had increased to Rs. 261.31 crore as on March 31, 2016 has reduced to 91.55 crore as on January 24, 2017. A part of these loans and advances have been recovered and have been used to prepay the bank term loans while the recoupment of remaining loans and advances from other entities is expected over the next 3 financial years.

Key Rating Weaknesses

High volatility in prices of the raw materials

The major raw materials for manufacture of ice cream are milk, butter, cream, and Skimmed Milk Powder (SMP), sugar, etc. DFIL procures major raw materials from local dairies near its manufacturing units. Other ingredients are procured from domestic market. The prices of key raw materials have consistently been rising over the years. Also, each year during November to January, the 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 prices of SMP during FY17 could however impact the profitability of the company going forward.

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, 2016 stood at Rs.381.69 crore including marketing assets of Rs.122.30 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. The company is also in process of setting up of ice-cream manufacturing and dairy processing unit at Asansol, West Bengal. The proposed cost of the project is Rs. 138 crore which will be funded out of Rs. 100 crore term loan from banks and remaining from own sources (amount recovered from loans and advances from group companies).

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: Factoring Linkages in Ratings
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 three manufacturing facilities with annual manufacturing capacity of 55 MLPA with peak monthly production capacity being 9.87 million litres per month (MLPM) situated at Baddi, Himachal Pradesh (2.80 MLPM), Goa (1.93 MLPM) and Kosi, U.P. (5.14 MLPM) as on December 31, 2016. The company is also in the process of setting up another manufacturing facility at Asansol in West Bengal with peak production capacity of 2.52 MLPM (Annual Production: 10MLPA) for manufacturing of Ice-cream and processing capacity for 50,000 Litres/day for dairy products (Poly Pack Milk, Dahi Butter Milk and Paneer). DFIL is a part of the RJ Corp Group which has presence across sectors like food, beverages, education, hospitality, dairy, etc.

During FY16 (refers to the period April 1 to March 31), DFIL had registered a PAT of Rs.21.61 crore (P.Y. Rs.25.11 crore) on a total income of Rs.460.90 crore (P.Y. Rs.448.53 crore). During H1FY17, based on provisional results, the company has reported a PBT of Rs.38.66 crore on a total income of Rs.310.56 crore.

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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facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of 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-Term Loan	-	-	July-21	109.40	CARE A-; Stable
Fund-based - LT-Cash Credit	-	-	-	34.50	CARE A-; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	49.90	CARE A-; Stable / CARE A2+
Fund-based - ST-Term loan	-	-	-	5.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	109.40	CARE A-; Stable	-	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- (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- / 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+ (27-May-16)	1)CARE A2+ (27-Apr-15)	-

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