Havmor Ice Cream Private Limited

January 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	30.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**30.00 (Rs. Thirty Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Havmor Ice Cream Private Limited (HIL) continue to derive strength from its strong parentage of Lotte Confectionary Co. Ltd. (LCCL) which is a part of the South Korean conglomerate Lotte group having leading position in confectionary and ice-cream manufacturing in South Korea, HIL's long track record of operations with established brand and significant market presence in the ice-cream market of Gujarat with gradually growing footprint in other states backed by strong dealer-distributor network, its comfortable leverage & debt coverage indicators along-with strong liquidity with large amount of fixed deposits. CARE also notes that HIL has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its strong liquidity profile.

The rating is, however, constrained on account of losses reported by it during H1FY21 (FY refers to the period from April 1 to March 31) due to coinciding of Covid-19 pandemic induced lockdown with its peak summer season sale of ice-cream in Q1FY21 albeit it had still earned positive cash accruals, risk associated with volatility in raw material prices, seasonality associated with the ice-cream business and high degree of competition in the ice-cream market from both organized as well as unorganized players.

Rating Sensitivities

Positive Factors

- Significant growth in scale of operations along-with significant geographical diversification
- PBILDT margin above 18% on a sustained basis by managing volatility associated with raw material prices and competitive pressures associated with venturing in to newer geographies
- Improvement in ROCE above 30% on sustained basis

Negative Factors

- Inability to revive its operating performance in FY22
- PBILDT margin falling below 10% on a sustained basis
- ROCE below 15% on a sustained basis
- Deterioration in overall gearing beyond 0.75 times on sustained basis

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage along with long track record of operations

HIL has a long track record of operations of more than five decades in the ice cream business. In December 2017, LCCL, a part of the South Korea based Lotte Group, acquired HIL from its erstwhile promoters i.e. the Chona family. Lotte Group is the fifth largest conglomerate in South Korea with presence across sectors like food & beverages, hotels, financial services, chemicals, electronics, IT, construction and entertainment. LCCL is the leading confectionary company in Korea and has presence across more than 90 countries. It is also one of the largest ice-cream manufacturers in South Korea with a dominant market share and is a leading player in the chocolate market in its home country.

Strong brand presence in Western India with growing footprint in other states aided by strong dealer-distributor network

HIL has a strong brand presence in the western states of Gujarat, Maharashtra and Rajasthan. Sales from these three states contributed around 73% and 68% of HIL's gross sales in FY19 and FY20 respectively. In order to have national footprint, HIL has entered into 7 new states over the past 3 years and currently has presence across 17 states. Contribution of Central, North and South zones to gross sales has increased substantially over the past three years from around 9% in FY17 to 30% in FY20 and has further increased to 40% in H1FY21 indicating HIL's growing national presence.

This was well supported by HIL's strong distribution network consisting of 521 distributors and more than 39,840 retailers as on October 31, 2020. Significant further geographical diversification of its revenue would be a key rating sensitivity.

Comfortable financial risk profile marked by stable operating income in FY20 along-with low leverage and comfortable debt coverage indicators

During FY20, HIL's performance largely remained stable, marked by ~4% growth in its TOI, however PBILDT margin moderated to 16.11% during FY20 from 18.46% during FY19 primarily on account of increase in the prices of raw materials especially Skimmed Milk Powder (SMP). Its PAT margin declined from 9.22% during FY19 to 5.95% during FY20 mainly due to moderation in its PBILDT along-with higher depreciation associated with its outsourcing arrangement. The capital structure remained comfortable marked by an overall gearing of 0.36x as on March 31, 2020 (0.42x as on March 31, 2019). The PBILDT interest coverage moderated to 14.29x (P.Y. 31.32x) mainly due to high finance cost related to lease liability but continued to remain comfortable. The total outside liabilities to Tangible Net worth (TOL/TNW) and total debt to GCA remained comfortable at 1.02x and 0.79x respectively in FY20.

Liquidity: Strong

HIL's liquidity is marked by strong accruals vis-à-vis nil term debt repayment obligations and presence of free cash and bank balance to the tune of ~Rs.56 crore as on December 27, 2020 (Rs.49.52 crore as on March 31, 2020). With an overall gearing of 0.36 times as of March 31, 2020, the issuer has sufficient gearing headroom, to raise additional debt for its capex/working capital requirements. Further, over the trailing twelve months ended Nov 2020, the fund based working capital limits largely remained unutilized (despite impact of Covid-19 on its operations during H1FY21) which reflects that it has entire working capital bank limits available to meet its incremental working capital needs over the next one year. Furthermore, HIL has not availed any moratorium from its lender for servicing of its debt under the Covid-19 relief package of the RBI, which further underlines its strong liquidity profile.

Key Rating Weaknesses

Losses incurred during H1FY21 on the back of the unprecedented Covid-19 pandemic induced lockdowns

HIL's product portfolio primarily comprises of Ice cream and frozen dessert, which is a seasonal business and company usually earns ~60-65% of its annual sales in the first half of financial year (63% in FY20). However, due to coinciding of outbreak of Covid-19 pandemic with ice cream's peak summer season sales, H1FY21 performance of HIL was severely impacted. During H1FY21, HIL could sell only ~122 lakh liter of ice cream, which was ~56% lower than ice cream sold in H1FY20 (~278 lakh liter), due to which TOI of HIFY21 declined by ~52% compared to H1FY20. Further, on account of high fixed cost associated with its operations and higher cost of raw material inventory consumed; it has reported losses before tax of Rs.11.63 crore in H1FY21; albeit it had still earned positive cash accruals.

Susceptibility of profitability to volatility in raw material prices

The key raw materials for manufacturing of ice-cream are SMP, milk, butter and cream, which HIL procures from local dairies wherein it has long-term procurement contracts whereas other raw materials like refined sugar, colors, flavors, dry fruits, fruits etc. are procured on a regular basis from large traders. The prices of its key raw material are dependent upon their availability in the domestic market which in turn is dependent upon various factors like fodder availability, milk production cycle of cattle and regulatory factors along with the global price trend of these commodities. HIL procures the entire SMP requirement for the upcoming summer season during October to March to avail the benefit of lower raw material prices due to onset of flush season as well as better quality of SMP available during that period, however during FY20 the raw material prices (mainly SMP) during the same period stood high on the back lower supply of milk in the industry which resulted in higher cost of its raw material and decline in profitability in FY20. The higher cost of raw materials combined with loss of peak season sales due to Covid-19 further impacted its profitability during H1FY21.

Presence in a seasonal and highly competitive industry with regular requirement of capex

Sales of ice cream is seasonal in nature and is highly concentrated during the summer and festive seasons, due to which HIL is required to stock key raw materials for meeting the demand in the upcoming season, which are mostly available in the winter season. Hence, the company's working capital intensity is at its peak level in the last quarter of the financial year. Further, concentration of revenue/demand for a product during a particular season can have an adverse impact on the operations during any disruptions coinciding with its main demand season, which was recently witnessed due to the unprecedented disruptions caused by the outbreak of Covid-19 pandemic during its peak summer season sales of H1FY21. Furthermore, HIL faces intense competition from various national and regional ice-cream brands and has to keep up with changing consumer tastes and preferences, so as to maintain and increase its market share; it requires continuous investment/innovation to come up with new flavors. In addition, it requires funds to manage its supply chain assets such as freezers , specialized delivery trucks etc. Although India is one of the fastest growing ice-cream markets, HIL faces high

degree of competition from various established brands like Amul, Vadilal, Kwality Walls, Cream Bell, Mother Dairy, Top 'N' Town, Dinshaw's, etc. In addition to this, HIL also faces competition from various local unorganized ice-cream manufacturers.
In order to increase its geographical presence, HIL has undertaken capacity expansion at its own manufacturing unit from 492.75 Lakh litres per annum (LLA) during FY15 to 732.00 LLA during FY19. In order to cater to northern, southern, south-western regions, HIL has also expanded its existing capacity by entering into two outsourcing agreements over past three years under which exclusive manufacturing facilities have been set-up, one at Faridabad [having capacity of 50,000 litres per day (LPD) as of March 31, 2020] and another at Solapur, Maharashtra (having capacity of 30,000 LPD as of March 2020). The said capacity expansions over past years have been funded through a combination of debt and equity. The outsourcing arrangement at Faridabad is running satisfactorily while Solapur outsourcing arrangement has not performed as planned. It became operational in March 2019 and sold 21 lakh litre ice cream to HIL in H1FY20, however post that due to financial problems faced by its counter-party, the plant became non-operational. Consequently, HIL has served termination notice on it.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning 'outlook' to Credit Ratings]
[CARE's Policy on Default Recognition]
[Liquidity Analysis of Non-financial sector]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]

About the Company
Gujarat based Havmor Ice Cream Private Limited (HIL) is a subsidiary of Lotte Confectionery Co. Ltd. (LCCL) and is a part of the South Korea based Lotte Group. Established in 1948, Lotte Group is the fifth largest conglomerate in South Korea with more than five decades of operations and has presence across sectors like food & beverages, hotels, financial services, chemicals, electronics, IT, construction, publishing and entertainment. LCCL is the leading confectionary and ice-cream manufacturing company in Korea and has presence across more than 90 countries.
LCCL acquired HIL in December 2017 from its erstwhile promoters, i.e., the Chona family, which had established the ice cream manufacturing operations in 1997 as a partnership firm which was later converted into a public limited company in 2006. Over its more than five decades of existence, 'Havmor' has established itself as one of the most recognised ice-cream brands in the country with dominant presence in western India and growing footprint nationally. As on October 31, 2020, HIL had presence across 17 states supported by a network of 521 distributors and more than 39,840 dealers.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	574.26	599.08
PBILDT	106.02	96.51
PAT	52.98	35.64
Overall gearing (times)	0.42	0.36
Interest coverage (times)	31.32	14.29

A: Audited

Furthermore, during H1FY21, HIL reported a total income of Rs.179.28 crore with Losses before tax of Rs.11.63 crore as against a total income of Rs.376.07 crore with a PBT of Rs.50.69 crore during H1FY20.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of 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-Long Term	NA	NA	NA	30.00	CARE A+; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Feb-19)	1)CARE A; Stable (01-Dec-17) 2)CARE A; Stable (02-Nov-17)
2.	Fund-based-Long Term	LT	30.00	CARE A+; Stable	-	1)CARE A+; Stable (24-Dec-19)	1)CARE A+; Stable (06-Feb-19)	1)CARE A; Stable (01-Dec-17) 2)CARE A; Stable (02-Nov-17)
3.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Feb-19)	1)CARE A; Stable (01-Dec-17) 2)CARE A; Stable (02-Nov-17)
4.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (06-Feb-19)	1)CARE A; Stable (01-Dec-17) 2)CARE A; Stable (02-Nov-17)

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based-Long Term	Simple

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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