

Devyani Food Industries Limited

February 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	574.50 (Enhanced from 352.56)	CARE A; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	26.15 (Enhanced from 15.94)	CARE A; Stable / CARE A1	Reaffirmed
Short Term Bank Facilities	5.00	CARE A1	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Devyani Food Industries Limited (DFIL) factor in the strategic importance of DFIL to its parent, RJ Corp Ltd (rated CARE AA+; Stable/A1+). The ratings of DFIL factor in the strong management and financial linkages it has with RJ Corp Ltd (RJ Corp) besides the demonstrated financial support it has received from its parent entity and promoters in the past, which is expected to continue going forward as well. It also factors in the improvement in topline by around 50% on account of higher sales volume coupled with increase in price realisations due to rising domestic consumer demand. It has also introduced new premium brand "Infino" in FY23 which is a premium offering by the company and is expected to improve its scale further. CARE Ratings Limited (CARE Ratings) notes that the company has undertaken a debt-funded capital expenditure for setting up manufacturing facility in Jammu which is expected to become operational in April 2024. The ratings continue to derive strength from the established brand name "CreamBell" in the ice-cream industry with extensive distribution network and also vast experience of its promoters along with longstanding track record with established operations of DFIL in ice-cream business. However, these rating strengths are partially offset by capital-intensive nature of operations, risk associated with the volatility of the raw material prices and competition in the ice-cream segment from the organized as well as unorganized players and seasonality associated with the business.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in its total operating income to the range of ₹ 1000-1200 crore on sustained basis & maintenance of its EBITDA margins at 12% or more
- Achievement & sustenance of Total debt to EBITDA of less than 2.5x

Negative factors

- Change in shareholding pattern of DFIL such that RJ Corp & promoters stake reduces below 51%
- Any major financial support given to subsidiary/group companies which leads to deterioration in DFIL's credit profile
- Deterioration in the credit risk profile of the holding company (RJ Corp)

Analytical approach:

Standalone. The ratings however factor in the support that DFIL needs to give to its subsidiary, Devyani Food Industries (Kenya) Limited, and ratings also factor in the strong management & financial linkages with the parent entity RJ Corp Ltd

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' opinion that the entity will continue to benefit from its established presence in the ice-cream segment with strong brand name and distribution network which shall enable the company to sustain its credit risk profile over the medium term. CARE Ratings' also expects that DFIL shall continue to receive the managerial and financial support from the parent and promoters as has been demonstrated in the past.

Detailed description of the key rating drivers:

Key strengths

Strong promoter group with diversified presence across sectors and strong investment portfolio with financial flexibility: RJ Corp is the holding company of the RJ Corp group, promoted by Ravi Kant Jaipuria. The group is a prominent

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

player in the sectors of beverages, quick service restaurants, retail, ice-cream, healthcare and education etc. Apart from the ice-cream business under DFIL, the RJ Corp group through Varun Beverages Limited (VBL) has franchise rights from PepsiCo in India (except J&K, Ladakh and Andhra Pradesh), Nepal, Sri Lanka, Morocco, Zambia, Zimbabwe, and Democratic republic of Congo (DRC). Varun Beverages Limited is the largest franchisee for PepsiCo in India and second largest in the world (outside US). The QSR business of the group is consolidated under 'Devyani International Ltd (DIL)' wherein the company is engaged in running over 1,000 outlets of 'Pizza Hut', 'KFC', 'Costa Coffee' and 'Vaango' in different parts of the country. The group also owns three schools operating as franchises of Delhi Public School. RJ Corp's robust financial flexibility is derived from its investments in its listed group entities i.e. VBL and DIL. The holding company has notable stake in prominent group companies which are listed like Varun Beverages Ltd (26.92%) and Devyani International Ltd (59.28%). As on December 28, 2023, the mark-to-market valuation of RJ Corp Ltd's holding in these entities were ₹43,234 crore. Furthermore, the promoters also hold additional stake of 36.18% in VBL and 3.46% in DIL apart from RJ Corp Ltd holding.

Strong management & financial linkages with the parent with continuous support: RJ Corp holds 47.19% in DFIL and 48.91% of DFIL is held by Ravi Kant Jaipuria who is the Group Non-Executive Chairman and also on the board of DFIL. RJ Corp has been supporting DFIL through regular equity infusions and loans and advances for any kind of financial support that DFIL may require. In FY23, RJ Corp has infused approximately ₹502.6 crore (₹402.6 crore of equity and ₹100 crore as unsecured loans), part of which was utilized to repay the group debt and balance was utilized to repay the debt in DFIL. In YTD FY24, the group has also invested ₹125 crore in FY24 as non-convertible debentures and repaid its unsecured loan fully. RJ Corp has also extended corporate guarantee for few of the bank facilities of DFIL in the past which are now though withdrawn but the continuous funds infusion demonstrates the fact that the entity is strategically important for the parent.

Established presence of promoters in ice cream segment with established brand and extensive distribution network: 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 their own brand CreamBell 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. 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 better profitability margins. Over the years, CreamBell has established its presence on pan-India level with continued marketing and expansion across territories. Currently, DFIL is catering to 27 states and three Union Territories across the country under brand CreamBell and has more than 1,300 distributors/dealers and around 67,000 retailers. DFIL sells its ice cream 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. Furthermore, the company has a presence across all regions viz. North Zone, West Zone, East Zone, South Zone and Overseas. However, majority of the sales of ice cream is coming from northern region, which contributes around 53% of its sales in FY23 & 56% of its sales in H1FY24, followed by eastern, western & southern regions respectively. The company has recently launched premium brand "Infino" in phased manner which will enhance scale of operations further.

Moderate financial profile albeit improvement in FY23:

The company's total operating income registered a growth of around 53% in FY23 i.e. from ₹475.98 crore in FY22 to ₹729.94 crore in FY23 due to improvement in sales volume by 43% due to increasing consumer demand. PBILTD margin of the company has also improved on account of increase in sales realizations. Raw material consumed cost per mn ltr of ice cream has increased because of high volatility in raw material prices, however the company is able to pass on the same and resulted in higher realizations. Following the conservative approach considering the subdued performance of its Kenya subsidiary in FY23, the company provided for impairment on investments of ₹99.17 crore on account of which it incurred net loss of ₹94.54 crore in FY23.

Debt repayments in FY22 and FY23 have been largely supported from the fund infusion by the promoters which is expected to continue in future as well. The overall gearing has improved from 5.61x as on March 31, 2022 to 1.07x as on March 31, 2023 owing to increase in net worth by infusion of ₹402.62 crore by the promoters. Subsequently, The gearing also improved to 1.07x as on March 31, 2023 from 5.61x as on March 31, 2022. The promoters infused ₹402 crore in FY23 supporting the capital structure of DFIL. This has supported the capital structure of the company and it also demonstrated that entity is strategically important to the group and promoters. Net debt/ PBILTD has also improved from 17.89x as on March 31, 2022 to 5.69x as on March 31, 2023 and further to 4.99x as on Sept 30, 2024. The company has taken Rs. 325 crore term loan for setting up of Jammu Project which repayment will resume from Q1FY25 onwards. DFIL has investments in subsidiaries aggregating ₹312.15 crore as on September 30, 2023. These are primarily investments in the Devyani Food Industries (Kenya) Limited (DFIL Kenya) which is a 100% subsidiary of DFIL. Furthermore, significant amount in the form of interest-bearing long-term and short-term loans and advances to the Kenyan subsidiary also stood at ₹50.42 crore as on September 30, 2023. The total exposure stood at around ₹362.57 crore as on September 30, 2023. Noteworthy is also that the promoters have infused funds in the Kenyan subsidiary as well and all the entire outside debt obligations have been paid off during FY22. There is no external term debt in the subsidiary in FY23 and YTD FY24 as well. It is not having any further debt, and this shall improve the financial metrics of that entity. The Kenyan subsidiary sells the dairy products under "Daima" brand which is very popular dairy brand in that country and was bought by DFIL Kenya from the erstwhile promoters of the Sameer group. The management has guided that there will be no significant support that DFIL Kenya will need going forward from DFIL. Furthermore, for FY23, DFIL Kenya's total operating income and net loss at PAT level stood at ₹356.08 crore and ₹36.86 crore respectively following which the company has provided for provision of impairment on investments for ₹99.17 crore in FY23.

Key weaknesses

Susceptibility of profitability to volatile raw materials prices: Raw material cost (including packing cost) is the biggest operating cost in ice-cream manufacturing. The major raw materials for manufacturing of ice cream are milk, butter, cream, Skimmed Milk Powder (SMP), sugar, etc. which are generally procured from vendors near its manufacturing units. DFIL also has long-term procurement contracts with various dairies. Other ingredients like colors, flavors, dry fruits, fruits, etc. are also procured from the domestic market. DFIL imports sticks and spoons from China. SMP prices have shown a declining trend over years however there was high volatility in the movement of SMP prices with sharp increase in prices during some months owing to demand supply mismatch. Therefore, any adverse movement in the raw material prices like SMP which are driven by market conditions can impact the profitability of the company. 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 has consistently incurred capital expenditure to enhance its capacities to meet the growing demand. DFIL has proposed to take up an expansion project in Jammu. The project size is ₹350 crore and it has achieved financial closure as well. The project is expected to be operational by April 2024 and will start contributing meaningfully from FY25. Any time or cost overrun in the current project will be key monitorable going forward. Furthermore, DFIL should be able to accrue benefits from this project as envisaged in terms of enhanced topline and profitability once operational. It will also enable DFIL to strengthen its market position with this project.

High competition in the ice-cream segment from the organized as well as un-organized markets: The Indian ice-cream market is largely dominated by un-organized players with innumerable small and seasonal companies doing the business in various regions. Furthermore, there are large number of big and medium-sized ice-cream companies in India which leads to a highly competitive environment. Although, there is a huge opportunity for industry players since India is one of the fastest-growing markets for ice-cream consumption due to its large population and growing per capita income; however, DFIL faces high competition from various other established brands like Amul, Havmor, Vadilal, Kwaliti Walls, Mother Dairy etc. in its various key markets. In addition, it also faces competition from unorganized ice-cream manufactures at local level.

Seasonality of demand as well as challenges arising from changing consumer tastes and preferences: The sales of DFIL are normally concentrated over the summer months, reflecting the seasonality of the business. Hence, the 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 meeting the demand for ice cream in the upcoming summer season. The business is also susceptible to changing tastes of consumers requiring investment in fixed assets leading to highly capital-intensive operations.

Liquidity: Adequate

The company's liquidity position stands adequate primarily supported by fund infusion from the promoters in the last 2 to 3 years. The liquidity is well supported by the group and parent entity where the liquidity position is strong. In FY23, the repayment was paid by funds infusion from the promoters. The current ratio of the company stood at 0.76x as on March 31, 2023 and 1.20x as on September 30, 2023, and operating Cycle of the company stood at 100 days for FY23. The stretch in the operating cycle in FY22 and FY23 was due to excessive stocking of SMP (raw material) at the year end. The average working capital utilization for 12 months ending on October 31, 2023 stood at 15-20% leaving sufficient liquidity buffer. The term debt repayments for FY24 and FY25 are ₹23.87 crore and ₹101.49 crore respectively. DFIL is expected to generate sufficient accruals for the same.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

Not Applicable

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

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About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast-moving consumer goods	Fast-moving Consumer Goods	Food products	Dairy products

DFIL, incorporated in year 1991, is currently engaged in manufacturing and distribution of ice cream on pan-India basis under the brand "CreamBell" and recently launched premium brand "Infino". DFIL has three manufacturing facilities with 11.41 million litres per month (MLPM during peak month) capacity for manufacturing of ice-cream and processing capacity for 32,500 Litres/day for juices. DFIL is a part of the RJ Corp group which has presence across sectors like food, beverages, education, dairy, healthcare, retail, etc. The RJ Corp group entered into the ice-cream business in 1992 through JV. However, the Group launched their own brand "CreamBell" in technical collaboration with "Candia" (France) in April 2003 under DFIL. The company is setting up another facility in Jammu which will be expected to become operational in Q1FY25.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY2024 (UA)
Total operating income	475.98	729.94	504.99
PBILDT	38.59	79.74	97.1
PAT	-70.75	-95.36	59.77
Overall gearing (times)	5.61	1.07	1.00
Interest coverage (times)	0.78	4.15	8.28

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:

Not Applicable

Any other information:

Not Applicable

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	31/07/2027	420.00	CARE A; Stable
Fund-based - LT-Working Capital Limits		-	-	-	154.50	CARE A; Stable
Fund-based - ST-Term loan		-	-	31/03/2024	5.00	CARE A1
Non-fund-based - LT/ ST-BG/LC		-	-	-	26.15	CARE A; Stable / CARE A1

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Term Loan	LT	420.00	CARE A; Stable	1)CARE A; Stable (08-Jan-24)	1)CARE A; Stable (15-Mar-23)	1)CARE A; Stable (31-Mar-22) 2)CARE A-(CE) (CW with Developing Implications) (03-Mar-22)	1)CARE A-(CE); Stable (22-Mar-21) 2)CARE A-(CE); Stable (07-Apr-20)
2	Fund-based - LT-Working Capital Limits	LT	154.50	CARE A; Stable	1)CARE A; Stable (08-Jan-24)	1)CARE A; Stable (15-Mar-23)	1)CARE A; Stable (31-Mar-22) 2)CARE A-(CE) (CW with Developing Implications) (03-Mar-22)	1)CARE A-(CE); Stable (22-Mar-21) 2)CARE A-(CE); Stable (07-Apr-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	26.15	CARE A; Stable /	1)CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A1 (31-Mar-22)	1)CARE A-(CE); Stable /

				CARE A1	(08-Jan-24)	(15-Mar-23)	2)CARE A-(CE) / CARE A2+ (CE) (CW with Developing Implications) (03-Mar-22)	CARE A2+ (CE) (22-Mar-21) 2)CARE A-(CE); Stable / CARE A2+ (CE) (07-Apr-20)
4	Fund-based - ST-Term loan	ST	5.00	CARE A1	1)CARE A1 (08-Jan-24)	1)CARE A1 (15-Mar-23)	1)CARE A1 (31-Mar-22) 2)CARE A2+ (CE) (CW with Developing Implications) (03-Mar-22)	1)CARE A2+ (CE) (22-Mar-21) 2)CARE A2+ (CE) (07-Apr-20)
5	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	-	1)Withdrawn (31-Mar-22) 2)CARE BBB (CW with Developing Implications) (03-Mar-22)	1)CARE BBB (22-Mar-21) 2)CARE BBB; Stable (07-Apr-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Fund-based - ST-Term loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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