

Sheetal Cool Products Limited

February 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BBB-; Stable (Triple B Minus; Outlook: Stable) and Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BBB-; Stable' [Triple B Minus; Outlook: Stable] assigned to the bank facilities of Sheetal Cool Products Limited with immediate effect. The above action has been taken at the request of Sheetal Cool Products Limited and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

The reaffirmation in the ratings takes into account the experienced promoters, strong brand presence in ice-cream segment, strong procurement, marketing and distribution network, presence in multiple product segments with growing focus on improving product basket albeit higher dependence on milk-based products, improvement in profitability and comfortable capital structure and debt coverage indicators.

The ratings are however tempered on account of moderate scale of operations with geographic concentration of revenues, elongated operating cycle resulting into high working capital utilization, susceptibility of profitability to changes in government policies and environmental conditions along with volatility in raw material prices, Seasonality of demand as well as challenges arising from changing consumer tastes and preferences, High competition in the ice-cream segment from the organized as well as un-organized markets.

Analytical approach: Standalone

Key strengths

Experienced promoters

SCPL is promoted by the Amreli-based Bhuva family, which has been engaged into ice-cream business for more than two decades. Late Shri Jagdishbhai D. Bhuva, started the production of varieties of ice-cream through Shree Shital Industries in the year 2000 which was converted into a public limited company in 2017 and the company was being listed on the BSE-SME platform in November, 2017. Currently, the operations of SCPL are managed by the second generation entrepreneurs. Mr Bhupat Bhuva, Managing Director of SCPL looks after the marketing and finance functions of the company and has a total work experience of nearly two decades. Further, Mr Bhupat Bhuva is assisted by his brothers Mr Dinesh Bhuva and Mr Sanjay Bhuva. Mr Sanjay Bhuva also has work experience of nearly two decades and looks after production and expansion of the company whereas Mr Dinesh Bhuva looks after overall operations of the company. The promoters are committed to support the operations through infusion of funds on need basis.

Strong brand presence in ice-cream segment in Gujarat with growing footprint in the western region

Sheetal ice cream is more than three decade old established ice-cream brand having presence geographically in the states of Gujarat, Maharashtra, Rajasthan, Madhya Pradesh and Jammu & Kashmir. The company 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. Over the last few years, the company derives revenues largely from Gujarat, Maharashtra, Rajasthan and is trying to grow its footprint in the western region of the country. However, the company has also commenced selling products in Jammu & Kashmir in FY22. Besides, the company vide press release on BSE has informed that it has completed the first export order to USA market via its registered merchant exporter, by supplying Sheetal Ice Cream & Frozen foods, which shall be available in California, USA under the brand 'Sheetal'. The company is registered with US FDA and it is accredited by British Retail Consortium Global Standards (BRCGS) for FSMA for seven food product categories including ice cream. The company had earlier exported to, inter alia, Australia, Singapore and Africa.

Strong procurement, marketing and distribution network

Over the years, company has constantly invested to come up with new products (flavours, varieties, etc.) in line with the industry in order to cater to the wide range of tastes, preferences, and customer segments and has y-o-y increase in the number of dealers and distributors. With the support of strong marketing and distribution network in the western region of India with 50 super stockists, 430 distributors, 7 Retail Parlours, 30,000 retailers and 60 distribution vehicles, the company in improving its scale of operations over the last few years. Also, procurement of various orders from reputed customers, setting up of ice cream parlours will further enable SCPL to expand its market reach and better product visibility in the market.

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

Presence in multiple product segments with growing focus on improving product basket albeit higher dependence on milk based products

The company has presence in multiple product segments in the form of ice-cream products, milk and milk products, snacks, bakery items and frozen food products, sweets and chocolates. This enables it to provide a wide variety of products to cater to a broad customer base in both rural, semi urban and urban areas. The company has been making attempts to increase or deepen the product basket as it looks to offer a full range of ready to eat kind of products to its customers.

Above average profit margins

The PBILDT margin of SCPL has improved in FY22 and stood at 11.55% vis-à-vis 9.98% in FY21 owing to proportionately lower material cost constituting 77% of the TOI in FY22 vis-à-vis 94% of the TOI in FY21. The PAT margin has also improved from 2.63% in FY21 to 5.64% in FY22 and further to 5.99% in 9MFY23 on account of lower interest and depreciation expense charged to revenue and improvement in operating profitability.

Comfortable capital structure and debt coverage indicators

The capital structure of SCPL marked by overall gearing ratio remained comfortable during past three years ending March 31, 2022, and reflected improvement from 1.31x as on March 31, 2021 to 1.01x as on March 31, 2022 owing to improvement in the tangible net worth base from Rs. 54.65 crore as on March 31, 2021 to Rs. 73.11 crore as on March 31, 2022 backed by accretion of profits to reserves.

Further, the debt coverage indicators also improved wherein the total debt to GCA improved from 3.35x as on March 31, 2021 to 2.58x as on March 31, 2022 on account of improvement in GCA from Rs. 21.32 crore in FY21 to Rs. 28.72 crore in FY22. Furthermore, the interest coverage ratio also improved and stood at 7.54x in FY22 vis-à-vis 3.64x in FY21 led by savings in interest expense and improvement in operating profitability.

Key weaknesses**Moderate scale of operations**

The total operating income reflected improvement of 40.84% in FY22 wherein the TOI stood at Rs. 326.84 crore in FY22 vis-à-vis Rs. 232.07 crore in FY21. During 9MFY23, the TOI stood at 279.50 crore.

Elongated operating cycle resulting into high working capital utilisation

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.}. The nature of operations of SCPL remained working capital-intensive owing to funds being utilized towards inventory and receivables. The collection period has improved in FY22 and stood at 14 days vis-à-vis 24 days in FY21 with inventory period remaining stable at 135 days in FY22 to 130 days in FY21. Besides, the creditor days remained stable at 37 days in FY22 and 59 days in FY21. The average utilization of the working capital limits stood at 85% to 90% during past twelve months ending Jan 2023.

Susceptibility of profitability to changes in government policies and environmental conditions along with volatility in raw material prices

Milk prices are sensitive to government policies as marked by Minimum Support Price and other regulations. Milk being a major raw-material for SCPL, it makes it susceptible to government regulations and to risks related to volatility in global milk powder prices. The key raw materials for manufacturing of ice-cream are skimmed milk powder, milk, butter and cream, which the company procures from local dairies or farmers. 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. 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.

Seasonality of demand as well as challenges arising from changing consumer tastes and preferences

There is an element of seasonality of demand in ice cream which increases with the onset of summer and moderates during winter. 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 capital intensive operations.

High competition in the ice-cream segment from the organized as well as un-organized markets

Indian ice-cream market is largely dominated by un-organized players with innumerable small and seasonal companies doing the business in various regions. Further, 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, the company faces high competition from various other established brands like Amul, Havmor, Kwality Walls, Cream Bell, Mother Dairy, Vadilal, Top 'N' Town, Dinshaw's, etc in its various key markets. In addition, the company faces competition from unorganized ice-cream manufactures at local level.

Liquidity: Adequate

The liquidity ratios of the company remained healthy with the current ratio at 1.78x as on March 31, 2022. The company has generated sufficient cash accrual of around Rs. 28.72 crore in FY22 which was more than adequate for repayment of around Rs. 8.73 crore in FY22. The company's average fund-based utilization for past twelve months ending January 2023 stood at 85% to 90%. Besides, at times the utilisation levels are almost fully utilised owing to higher credit period being offered and also as the company needs to ensure availability of stocks for both finished goods and raw material to support the operations. Besides, cash flow from operating activities remained negative at Rs. 4.68 crore in FY22 vis-à-vis negative cash flow from operations at Rs. 5.63 crore in FY21. Also, free cash and bank balance stood at Rs. 0.94 crore as on March 31, 2022 vis-à-vis Rs. 4.08 crore as on March 31, 2021.

Applicable criteria

[Policy on default recognition](#)

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

[Criteria on Assigning 'Outlook' or 'Rating Watch' to Credit Ratings](#)

[Financial ratios - Non-Financial Sector](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Originally, the business was founded by Mr. Jagdishbhai D. Bhuva in 1987 as 'Sheetal Pan & Cold Drinks kiosk and later was established in the year 2000 as a proprietorship firm by late Mr. Jagdishbhai D. Bhuva. 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. Subsequently, 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). SCPL is engaged into manufacturing, processing, marketing and distribution of ice-creams, milk and milk products, namkeen wafer and fryums, bakery items and frozen food products (ready to eat frozen food and frozen vegetables) under the brand 'Sheetal'. 'Sheetal' has established itself as one of the reputed ice-cream brands in the western India with dominant presence in the state of Gujarat (especially Saurashtra region) and growing its footprint in Maharashtra, Madhya Pradesh, Rajasthan as well as in Jammu & Kashmir. Besides, the company also sells ice cream under premium category as compared to Sheetal brand under the brand name of "J'adore". Besides, the company operates two wind mills of 1.75MW and 1.5MW in Kutch and a solar based power generating unit of 1.50 MW at Amreli near the factory.

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (Prov.)
Total operating income	232.07	326.84	279.50
PBILDT	23.15	37.76	35.76
PAT	6.10	18.43	16.73
Overall gearing (times)	1.31	1.01	NA
Interest coverage (times)	3.64	7.54	6.02

A: Audited; Prov.: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

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

Covenants of the rated instruments/facilities: Not Applicable

Complexity level of the 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-Cash Credit	-	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	-	May 2028	0.00	Withdrawn
Fund-based - LT-Working capital Term Loan	-	-	-	November 2027	0.00	Withdrawn

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (16-Feb-22)	-	-
2	Fund-based - LT-Working capital Term Loan	LT	-	-	-	1)CARE BBB-; Stable (16-Feb-22)	-	-
3	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BBB-; Stable (16-Feb-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the 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-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - LT-Working capital Term Loan	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.

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