Devyani Food Industries Limited

March 31, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	361.37 (Enhanced from 53.25)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A- (CE)^ [Single A Minus (Credit Enhancement)] and removed from Credit watch with Developing Implications; Stable outlook assigned
Long Term / Short Term Bank Facilities	14.00 (Reduced from 44.00)	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Revised from CARE A- (CE)^ / CARE A2+ (CE) and removed from Credit watch with Developing Implications; Stable outlook assigned
Short Term Bank Facilities	5.00	CARE A1 (A One)	Revised from CARE A2+ (CE)^ [A Two Plus (Credit Enhancement)] and removed from Credit watch with Developing Implications
Total Bank Facilities	**380.37 (Rs. Three Hundred Eighty Crore and Thirty-Seven Lakhs Only)**		

Details of instruments/facilities in Annexure-1

^ previously backed by credit enhancement in the form of Irrevocable and unconditional corporate guarantee extended by RJ Corp Limited for its timely debt servicing

Unsupported Rating	**Withdrawn**

Detailed Rationale & Key Rating Drivers

The ratings of Devyani Food Industries Limited (DFIL) were earlier placed on credit watch with developing implications on account of expected change in the analytical approach as the corporate guarantees extended by RJ Corp Ltd (RJ Corp; Parent of DFIL) were in the process of being withdrawn and there was improvement in the standalone financial profile of DFIL. Since the implications of the above developments on the credit profile of DFIL are now clear, hence the ratings of DFIL are now being removed from credit watch.

The revision in the ratings assigned to the bank facilities of DFIL factor in the strategic importance of DFIL to its parent, RJ Corp whose financial profile has registered significant improvement in the current fiscal characterized by reduction in its total debt levels including corporate guarantees extended to group companies and improvement in RJ Corp's financial flexibility emanating from the significant market valuation (approximately Rs 22,000 crore as on March 04, 2022 which increased from Rs 8,300 crore as on March 07, 2021) of its equity investments majorly derived from its group companies Varun Beverages Limited and Devyani International Ltd (DIL, which got listed in August 2021) and significant reduction in pledge of shares. The ratings of DFIL factor in the strong management and financial linkages it has with RJ Corp besides the demonstrated financial support it has received from its parent entity in the past, which is expected to continue going forward as well.

The revision in the ratings also factor in the significant reduction in debt levels of DFIL in 9MFY22 (refers to period from April 01 to Dec 31) supported from the fund infusion from the parent which has strengthened DFIL's capital structure. The ratings continue to derive strength from the established brand name" CreamBell" in the ice-cream industry with extensive distribution network and consistent growth in scale of operations except the covid marred years and also vast experience of its promoters along with long-standing track record with established operations of DFIL in ice-cream business.

However, these rating strengths are partially offset by continued high exposure of the company majorly in its Kenyan subsidiary, 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

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Growth in its total operating income by 20% on sustained basis & maintenance of its EBITDA margins.
- Achievement & sustenance of Total debt to EBITDA of less than 3.5x
- Improvement in the credit profile of the holding company (RJ Corp)

[1]Complete definition of the ratings assigned are available at and other CARE Ratings Ltd.'s publications

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Change in shareholding pattern of DFIL such that RJ Corp & promoters stake reduces below 51%
- Any further 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)

Detailed description of the key rating drivers

Key Rating Strengths

Strong promoter group with diversified presence across sectors and Strong Investment portfolio with financial flexibility
RJ Corp Limited is the holding company of RJ Corp Group, promoted by Mr Ravi Kant Jaipuria. The group is a prominent player in the sectors of Beverages, fast-food 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 fast-food restaurant business of the group is consolidated under 'Devyani International Ltd (DIL)' wherein the company is engaged in running over 890 outlets of 'Pizza Hut', 'KFC', 'Costa Coffee', 'Vaango' in different parts of the country. The group also owns three schools operating as franchises of Delhi Public School.

RJ Corp is having investments of Rs. 1120.09 crore as on March 31, 2021 in the form of investments in equity share and preference share capital, debentures of subsidiaries, listed companies and unlisted companies which formed 59.27% of total assets of Rs. 1889.80 crore. As on March 31, 2021, nearly 43.70% of total assets (i.e. Rs. 825.89 crore) are held in the form of equity shares of companies which are listed having market value of more than Rs. 22,000 crores as on Mar 04, 2022. This value has significantly increased from last year (Rs 8,300 crore as on March 07, 2021) after DIL got listed in August 2021. The company has notable stake in prominent group companies which are listed like Varun beverages Ltd (27.69%) and Devyani International Ltd (59.44%). The actual debt as on December 31, 2020 stood at Rs. 1017.29 crore which got significantly reduced to Rs 522.25 crore as on Dec 31, 2021. The guarantees issued to group companies also significantly reduced to Rs 16.23 crore as on Dec 31, 2021 from Rs 456.66 crore as on March 03, 2021 and accordingly the pledge on the shares of RJ Corp have also been released which were earlier close to 28.5% to less than 6% currently.

Strong management & financial linkages with the parent with continuous support
RJ Corp holds 51.56% in DFIL and 40.29% of DFIL is held by Mr. Ravi Kant Jaipuria who is the Group 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 FY22, RJ Corp has infused approximately Rs 315 crore. 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 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 its 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, Cream bell has established its presence on pan-India level with continued marketing and expansion across territories. Currently, DFIL is catering to 20 states and 2 Union Territories across the country under brand 'CreamBell' and have more than 1209 distributors/dealers and around 77834 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.
Further, 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 55% of its sales in FY21 & 9MFY22, followed by western, east & southern regions respectively.

Key Rating Weaknesses
Moderate financial profile albeit improvement in 9MFY22
Company's total operating income registered a decline of ~39% in FY21 primarily on account of covid outbreak. The sales volume declined by almost 50% on account nationwide lockdown imposed in the country in latter half of March 2020 and which continued till July/August of 2020 which affected the sales of the company. PBILDT Margin of the company dropped primarily on account on significant drop in sales which were not enough to cover the fixed cost. Raw material consumed cost per mn ltr of ice cream has increased on account of high raw material prices, however company is able to pass on the same and resulted in higher realizations.

However, on account of increase in interest cost in past years due to high working capital utilization and depreciation expenses, PAT of the company stood negative in FY21. During H1FY22, company has achieved a total operating income of Rs. 246 crores at a PBILDT Margin of 12.42%. Debt repayments in FY21 and FY22 have been largely supported from the fund infusion by the promoters.
Due to past losses, the net worth of the company declined but to arrest the same, promoters infused funds in FY22 in the form of equity (Rs 78.81 crore) and partially through loans and advances (Rs 236.85 crore). Out of total promoters' loan of Rs 313.20 crore, loans to the extent of Rs 200 crore have been subordinated to the bank borrowings. Out of the funds so infused in FY22, Rs 288 crore of debt in DFIL was paid off which has helped in deleveraging the balance sheet to an extent. The overall gearing (without group exposure) which had deteriorated to 5.32x as on March 31, 2021 is expected to improve to 1.29x by March 31, 2022 end. The interest rates for the existing Term Loans and WCDL facilities have been considerably renegotiated and the present average ROI is 7.29% p.a. vis a vis 9.13% prior to August 2021.

Significant exposure to Subsidiary
DFIL has investments in subsidiaries aggregating Rs. 125.33 crore as on Sep 30, 2021. These are primarily investments in the Devyani Food Industries (Kenya) Limited (DFIL Kenya) which is a 100% subsidiary of DFIL. Further, significant amount the form of interest bearing long term and short-term loans and advances to the Kenyan subsidiary also stood at Rs 210.4 crore as on Sep 30, 2021. The total exposure stood at ~Rs 336 crore as on Sep 30, 2021. Noteworthy is also that promoters have infused funds in Kenyan subsidiary as well and all the entire outside debt obligations have been paid off during FY22. It is not having any further debt, and this shall improve the financial metrics of that entity. 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 Sameer group. Management has guided that there will be no significant support that DFIL Kenya will need going forward from DFIL.

High volatility in prices of the raw materials
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. 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 has consistently incurred capital expenditure to enhance its capacities to meet the growing demand.

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, Havmor Vadilal, 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.

Liquidity: Adequate
The liquidity position of DFIL is adequate and derives support from the financial & liquidity profile of the parent, RJ Corp. The company's liquidity position stands adequate primarily supported by fund infusion from the promoters in last 2 to 3 years. The current year repayment obligation in FY22 were paid by funds infusion from the promoters. Current ratio of the company stood at 0.46 as on March 31, 2021 and Operating Cycle of the company stood at 88 days for FY21. The stretch in the operating cycle was on account of Covid19 and is expected to improve going forward. The average working capital utilization for 12 months ending on December 31, 2021 stood at ~15% leaving sufficient liquidity buffer.
As on March 31, 2021, nearly 43.70% of total assets of RJ Corp (i.e. Rs. 825.89 crore) are held in the form of equity shares of companies which are listed having market value of more than Rs. 22,000 crores as on Mar 04, 2022. This gives significant financial flexibility to the group.

Analytical approach:
Standalone. The ratings however factor in the strong management & financial linkages with the parent entity RJ Corp Ltd (RJ Corp).
Note: The analytical approach has been changed on account of withdrawal of corporate guarantees from the parent RJ Corp.

Earlier approach
For Credit Enhanced Ratings:
The ratings factor in the Credit Enhancement in the form of Irrevocable and unconditional Corporate Guarantee from the parent; RJ Corp. Limited for the rated bank facilities of Devyani Food Industries Limited. CARE has considered the standalone financials of RJ Corp Ltd. while assigning the ratings to the bank facilities of Devyani Foods Industries Limited.

For unsupported Ratings: Standalone financials of Devyani Foods Industries Limited is considered.

Applicable Criteria
Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Investment Holding Companies
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Manufacturing Companies

About the Company - DFIL
Devyani Food Industries Ltd (DFIL), incorporated in year 1991, is currently engaged in manufacturing and distribution of ice cream on pan-India basis under the brand "CreamBell". 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 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, 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.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	535.72	328.21	246
PBILDT	85.47	15.08	31
PAT	-22.08	-113.03	-18
Overall gearing (times)	2.72	5.32	NA
Interest coverage (times)	1.11	0.23	NA

A: Audited, UA: Unaudited, NA: Not Available

About the parent – RJ Corp Limited
RJ Corp Limited was incorporated on March 01, 1990, and is the holding company with interests in beverages, fast-food restaurants, retail, ice-cream, dairy products, healthcare and education. RJ Corp Limited is also engaged in retail sales of Shoes and Apparels of Nike and Rookie Brand. RJ Corp footprint is spread across India and the group also has businesses in Nepal, Sri Lanka, Kenya, Morocco, Zambia, Zimbabwe and Democratic Republic of Congo. 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 through Varun Beverages Limited 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. Varun Beverages Limited is the largest franchisee for PepsiCo in India and second largest in the world (outside US). The fast-food restaurant business of the group is consolidated under 'Devyani International Ltd' wherein the company is engaged in running over 890 outlets of 'Pizza Hut', 'KFC', 'Costa Coffee', 'Vaango' in different parts of the country. The group also owns three schools operating as franchises of Delhi Public School.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	9MFY22 (UA)
Total operating income	164.66	140.33	NA
PBILDT	96.94	92.80	NA
PAT	-101.72	-23.91	NA
Overall gearing (times)	1.64	1.27	NA
Interest coverage (times)	0.75	0.82	NA

A: Audited, UA: Unaudited, NA: Not 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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	Aug, 2027	271.87	CARE A; Stable
Fund-based - LT-Cash Credit		-	-	-	89.50	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	14.00	CARE A; Stable / CARE A1
Fund-based - ST-Term loan		-	-	-	5.00	CARE A1
Un Supported Rating-Un Supported Rating (Long Term)		-	-	-	0.00	Withdrawn

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	271.87	CARE A; Stable	1)CARE A- (CE) (CWD) (03-Mar-22)	1)CARE A- (CE); Stable (22-Mar-21) 2)CARE A- (CE); Stable (07-Apr-20)	1)CARE A- (SO); Stable (05-Apr-19)	1)CARE A-; Stable (04-Apr-18)
2	Fund-based - LT-Cash Credit	LT	89.50	CARE A; Stable	1)CARE A- (CE) (CWD) (03-Mar-22)	1)CARE A- (CE); Stable (22-Mar-21) 2)CARE A- (CE); Stable (07-Apr-20)	1)CARE A- (SO); Stable (05-Apr-19)	1)CARE A-; Stable (04-Apr-18)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	14.00	CARE A; Stable / CARE A1	1)CARE A- (CE) / CARE A2+ (CE) (CWD) (03-Mar-22)	1)CARE A- (CE); Stable / CARE A2+ (CE) (22-Mar-21) 2)CARE A- (CE); Stable / CARE A2+ (CE) (07-Apr-20)	1)CARE A- (SO); Stable / CARE A2+ (SO) (05-Apr-19)	1)CARE A-; Stable / CARE A2+ (04-Apr-18)
4	Fund-based - ST-Term loan	ST	5.00	CARE A1	1)CARE A2+ (CE) (CWD) (03-Mar-22)	1)CARE A2+ (CE) (22-Mar-21) 2)CARE A2+ (CE) (07-Apr-20)	1)CARE A2+ (SO) (05-Apr-19)	1)CARE A2+ (04-Apr-18)
5	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	1)CARE BBB (CWD) (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 instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
I Debt/TNW	<=3x
II DSCR	>=1x
III Interest cover	>1.5x
IV Fixed Asset Coverage Ratio	1x
V Exposure to group entities	Investments, loan and advances, and Corporate Guarantee to be restricted within Rs 425 crore
B. Non financial covenants	
I Insurance	All assets charged/ financed by the Bank to be fully insured for 100% of the value in the name of the Borrower with the Bank clause
II Bilateral facility and security documents	To be executed upfront

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based - ST-Term loan	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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