Havmor Ice Cream Private Limited

December 24, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	30.00 (reduced from Rs.50.00 crore)	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**
Total	**30.00 (Rupees 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 HIL's 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. The rating further continues to derive strength from HIL's comfortable leverage and debt coverage indicators apart from taking cognizance of the steady growth in its sales volume along with improvement in its operating profitability during FY19 (refers to the period from April 1 to March 31) and H1FY20 which is supported by various cost efficiency measures undertaken by the management and lower cost of raw material consumed.

The rating, however, continues to remain constrained on account of the 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

- 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
- Any significant debt-funded capex undertaken by the company which may result into weakening of its debt coverage indicators (deterioration of TD/GCA beyond 2.5x)

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage alongwith long track record of operations

HIL has a long track record of operations of more than two 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 70 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 66% of HIL's gross sales in FY19 and H1FY20 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 26% in FY19 and has further increased to 34% in H1FY20 indicating HIL's growing national presence.

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

This was ably supported by HIL's strong distribution network consisting of 516 distributors and more than 43,159 retailers as on September 30, 2019. Significant further geographical diversification of its revenue would be a key rating sensitivity.

Strong financial risk profile marked by increase in total operating income (TOI) alongwith improvement in profitability, low leverage and comfortable debt coverage indicators

HIL has reported robust y-o-y growth of 19% and 13% in its TOI during FY19 and H1FY20 respectively largely driven by growth in both sales volume as well as sales realizations. The growth in sales volume was driven by increased penetration in existing geographies which includes key states i.e. Gujarat, Maharashtra, Rajasthan as well as other states like Punjab, Telangana, Madhya Pradesh, Uttar Pradesh and Haryana along with entry into eastern and northern states of Uttarakhand, Odisha and West Bengal. Operating profit margin improved significantly by 771 bps on y-o-y basis during FY19 due to benefits derived from procurement of raw materials at reduced prices, growth in scale of operations as well as measures taken by management to improve cost efficiency. Further, during H1FY20 operating profit margin despite moderation remained healthy at 17.85% as against 19.91% during H1FY19 majorly on account of increase in the prices of raw material especially Skimmed Milk Powder (SMP).

Overall gearing of the company improved to 0.42x as on March 31, 2019 (0.71x as on March 31, 2018) on the back of no outstanding term loan and lower utilisation of working capital limits. PBILDT interest coverage improved and remained healthy at 31.32x during FY19 (8.05x during FY18) and total debt / GCA remained comfortable at 0.68x during FY19 (1.52x during FY18). Further, as on September 30, 2019, the company had no debt outstanding on its books except for financial lease obligation.

Key Rating Weaknesses

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 and 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. Globally, SMP prices had declined substantially from April 2014 mainly due to weak demand from one of the largest importer i.e. China along with abolition of three decade old milk production quota system within European Union (EU) countries resulting in enhanced supply. Thus, as an effect of quota abolition, the global prices of SMP remained weak on the back of oversupply. However, during FY19, post announcement of various subsidies by Government of Gujarat, Government of Maharashtra and Central Government on export of SMP, its prices have again shown an increasing trend.

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

Sales of ice cream is seasonal in nature and is concentrated over 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, HIL faces intense competition from various national and regional brands and has to keep up with changing consumer tastes and preferences to so as to maintain and increase its market share for which it requires continuous investment/innovation to come up with new flavours. 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 litre 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 April 2019 as against 25,000 LPD as on March 2017] and another at Solapur, Maharashtra (having capacity of 30,000 LPD as on March 2019). The said capacity expansions over past years have been funded through a combination of debt and equity in the ratio of 23:77 respectively.

Liquidity: Strong

Liquidity of HIL is strong marked by healthy cash accruals against nil scheduled term debt repayment obligations going forward. With an overall gearing of 0.42 times as of March 31, 2019, it has sufficient gearing headroom, to raise additional debt for its capex; although it is expected to fund its capex through internal accruals without any reliance on debt. Average utilization of working capital limits stood very comfortable at around ~3% for the past 12 months ended November 2019 and thus its largely unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The operating cycle also improved to 56 days in FY19 from 66 days in FY18 with shortening of the inventory holding period.

Analytical Approach: Standalone

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
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. Lotte Group, established in 1948, 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 70 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 on converted into a public limited company in 2006. Over its more than two 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 September 30, 2019, HIL had presence across 17 states supported by a network of 516 distributors and more than 43,159 dealers.

Brief Financials (Rs. Crore)	*FY18 (A)	FY19 (A)
Total operating income	483.74	574.26
PBILDT	51.99	106.02
PAT	13.84	52.98
Overall Gearing (times)	0.71	0.42
Interest coverage (times)	8.05	31.32

A: Audited
*FY18 figures have been restated as per Annual report of FY19
Furthermore, during H1FY20, HIL reported a total income of Rs.375.62 crore with a PBT of Rs.50.68 crore as against a total income of Rs.332.13 crore and PBT of Rs.50.07 crore during H1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (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	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
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)	1)CARE A (03-Nov-16)
2.	Fund-based-Long Term	LT	30.00	CARE A+; Stable	-	1)CARE A+; Stable (06-Feb-19)	1)CARE A; Stable (01-Dec-17) 2)CARE A; Stable (02-Nov-17)	1)CARE A (03-Nov-16)
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)	1)CARE A (03-Nov-16)
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)	1)CARE A (03-Nov-16)

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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