

Ramani Icecream Company Limited

January 3, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	94.00 (enhanced from Rs.66.50 crore)	CARE BBB+; Stable [Triple B Plus; Outlook: Stable]	Reaffirmed
Total Facilities	94.00 (Rupees Ninety Four crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Ramani Ice Cream Company Limited (RICL) continues to derive strength from the vast experience of the promoters with established track record of operations in the ice-cream manufacturing business, established presence of Top 'N Town brand in Madhya Pradesh along with moderate geographical diversification of its revenue profile. The rating further derives strength from RICL's growing distribution network, healthy operating profitability albeit moderation in the same during FY18, moderate overall gearing and comfortable debt coverage indicators.

The rating, however, continues to remain constrained on account of the risk associated with volatility in raw material prices, high working capital intensity of operations, seasonality associated with the business and intense competition in the ice-cream market from both organized as well as unorganized segments.

RICL's ability to increase its scale of operations through greater geographical diversification and brand penetration while maintaining its healthy profitability along with improvement in capital structure and efficient management of working capital requirements would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters with established track record of operations: Ramani group started ice-cream manufacturing business in Bhopal (Madhya Pradesh) more than four decades ago under the brand name of Top 'N Town. RICL currently has presence in seven states and its operations are managed by Mr. Arun Hariramani, who has experience of more than 25 years in the ice-cream industry. The promoters also manage businesses in other sectors like education and real estate.

Strong brand presence in Madhya Pradesh with moderate geographical diversification: RICL's brand, Top 'N Town, has strong foothold in Madhya Pradesh with around 57% of gross sales being contributed by the state. Furthermore, RICL has good presence in nearby states of Maharashtra, Chhattisgarh, Rajasthan and Orissa along with growing presence in two other states. Also, RICL has a growing distribution network consisting of 270 exclusive parlors, 24,800 dealers and 330 distributors across India as on October 31, 2018.

Healthy profitability with moderate leverage and comfortable debt coverage indicators: RICL operates on a moderate scale and it reported a healthy y-o-y growth of 16% in its total operating income (TOI) during FY18 with increase in volume of ice cream. Furthermore, RICL had a healthy operating profitability which however, moderated by 153 bps y-o-y in FY18 largely on account of higher raw material cost incurred during the year along with higher travel, legal and professional expense. RICL's capital structure continued to remain moderate as well marked by overall gearing of 1.30x as on March 31, 2018. Marginal deterioration in the same vis-à-vis previous year end level was on account of debt availed during FY18 for capacity expansion as well as for branding & promotion activities along with higher outstanding working capital bank borrowings. Debt coverage indicators also continued to remain comfortable during FY18.

Key Rating Weaknesses

Susceptibility of profitability to volatility in raw material prices: Major raw materials for RICL include skimmed milk powder (SMP), milk, butter and sugar. The prices of these ingredients are dependent on their supply in the domestic market. Also, SMP and milk exhibit volatility due to various factors including fodder availability, milk production cycle of cattle and regulatory factors along with the global price trend followed by these commodities.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

Working capital intensive operations due to presence in a seasonal and highly competitive industry: Sale of ice cream is seasonal in nature and is concentrated during the summer and festive season due to which RICL is required to stock inventory which results in working capital intensity. Further, RICL faces intense competition from various national, international & regional brands and has to keep up with changing consumer preferences as well as introduce new products to maintain and increase its market share.

Liquidity: RICL had moderate liquidity marked by average utilization of working capital limits at around 91% (average for the past 12 months ended October 2018), which leaves little cushion for meeting funding requirements for any exigencies. RICL's operating cycle elongated to 108 days during FY18 due to increase in raw material inventory holding with decline in price of some of its raw materials. Anticipated cash accruals are expected to comfortably cover the term loan repayments in the medium term (around Rs.4 crore in FY19 and around Rs.9-10 crore in FY20-FY21).

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

RICL was established by Bhopal-based Ramani group. Initially constituted as Ramani Ice Cream Company Pvt. Ltd. in 1991, it was later on converted into a public limited company in 2011. Founded by Late Mr. Balchand Kukreja, Ramani group is engaged in manufacturing of ice cream since 1970. RICL sells its products under the brand name of Top 'N Town which has dominant presence in Madhya Pradesh and good presence in states like Maharashtra, Chhattisgarh, Orissa and Uttar Pradesh. As on September 30, 2018, RICL had annual capacity of 27 million litres per annum (MLPA) for manufacturing of ice cream at its two plants located in Bhopal, Madhya Pradesh and Durg, Chhattisgarh.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	167.75	194.42
PBILDT	24.73	25.70
PAT	8.03	5.85
Overall gearing (times)	1.09	1.30
Interest coverage (times)	5.35	4.14

A: Audited

Furthermore, during H1FY19, RICL reported a total income of Rs.123.25 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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Annexure-1: Details of Instruments/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 - LT-Term Loan	-	-	2025	59.00	CARE BBB+; Stable
Fund-based - LT-Cash Credit	-	-	-	35.00	CARE BBB+; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	59.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Jan-18)	1)CARE BBB+; Stable (15-Dec-16)	1)CARE BBB+ (11-Dec-15)
2.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (05-Jan-18)	1)CARE BBB+; Stable (15-Dec-16)	1)CARE BBB+ (11-Dec-15)

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