

## Sheetal Cool Products Limited

February 16, 2022

### Ratings

| Facilities/Instruments       | Amount<br>(Rs. crore)                               | Rating <sup>1</sup>                                    | Rating Action |
|------------------------------|---|--|---------------|
| Long Term Bank Facilities    | 85.00   | CARE BBB-; Stable<br>(Triple B Minus; Outlook: Stable) | Assigned      |
| <b>Total Bank Facilities</b> | <b>85.00</b><br><b>(Rs. Eighty-Five Crore Only)</b> |  |               |

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sheetal Cool Products Limited (SCPL) derives strength from experienced promoters and strong brand presence in ice-cream segment in Gujarat with growing footprint in the western region, strong procurement, marketing and distribution network coupled with having presence across multiple product segments with growing focus on improving product basket albeit having higher dependence on milk based products. The ratings further derive support from above average profit margins, moderate capital structure and debt coverage indicators and adequate liquidity position.

The above rating strengths, however continue to be tempered by moderate scale of operations with geographic concentration of revenues, elongated operating cycle resulting into high working capital utilisation and susceptibility of profitability margins to seasonality of demand. The ratings are further tempered by changes in government policies and environmental conditions along with volatility in raw material prices and high competition in the ice-cream segment from the organized as well as un-organized markets.

### Rating Sensitivities

#### Positive Factors

- Sustained increase in scale of operations of the company close to around Rs. 350.00 crore.
- Improvement in profitability margins, with PBILDT margins close to around 13.00%.
- Improvement in working capital utilisation to around 80% along with operating cycle to less than 65 days on sustained basis

#### Negative factors

- Deterioration in operating profitability margins below 6% on a sustained basis
- Decline in coverage indicators as marked by interest coverage ratio below 1.50 times
- Deterioration in the capital structure as marked overall gearing ratio above 1.50 times on a sustained basis
- Any deterioration in the operating cycle of the company owing to any significant increase in receivables or inventory levels and sustained level of operating cycle beyond 120 days.

### Detailed description of the key rating drivers

#### Key rating Strength

##### ***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.

<sup>1</sup> Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### ***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 wherein the distributors have increased from 560 in FY20 to 623 in FY21 and 652 in H1FY22. 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.

### ***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. During FY21, Ice cream segment alone has contributed around 50.22% of overall revenues followed by milk and milk based products contributing around 32.69% of revenues and remaining came in from snacks, bakery items and frozen food products, sweets and chocolates. Thus, this demonstrates that the company derives around 80% or more revenues from milk and milk based products and remaining from the other products. Nevertheless, the company is making attempts to decrease the dependence by increasing the penetration of other products in the market and the company is expecting to have a more balanced portfolio in the days to come.

### ***Above average profit margins***

The PBILDT margin of SCPL remained above average albeit fluctuating during past three years (i.e. FY19 -FY21). However the decline in TOI along with increase in overheads viz. material cost and travelling expenses, job work charges and other miscellaneous expenses, decline in proportion of income from ice cream which is relatively higher margin business has led to decline in the operating margin, wherein the PBILDT margin deteriorated and stood at 9.98% in FY21 vis-à-vis 12.58% in FY20. However, SCPL has garnered better profitability position in H1FY22 wherein the PBILDT margin stood at 11.14% along with PAT margin of 4.95% backed by relatively lesser Covid-19 restrictions and improved consumer sentiments backed by satisfactory progress in vaccine inoculations.

### ***Moderate capital structure and debt coverage indicators***

The capital structure of SCPL marked by overall gearing ratio stood moderate during past three years ending March 31, 2021 on account of healthy net worth base of the company as compared to the debt level. The overall gearing of SCPL stood at 1.31x as on March 31, 2021 vis-à-vis 1.07x as on March 31, 2020 owing to increased dependence on working capital bank borrowings. Nevertheless, the same remains at moderate levels. Further, as on September 30, 2021, the overall gearing ratio improved and stood at 1.02x as against 1.31x as on March 31, 2021 owing to reduction in debt level and improvement in tangible net worth base.

In light of increased debt levels and dip in cash profits and higher depreciation, the debt protection metrics marked by total debt to GCA stood at 3.35x as on March 31, 2021 vis-à-vis 2.03x as on March 31, 2020. Interest coverage though has deteriorated from 6.94x in FY21 to 3.64x in FY20 owing to higher interest cost and lower operating profitability; yet it is at moderate levels. However, the same has shown significant and healthy improvement in H1FY22 (refers to the period from April 01 to March 31) wherein the ICR stood at 10.96x given the lower interest cost reported.

### ***Key rating Weakness***

***Moderate scale of operations with geographic concentration of revenues*** The total operating income of SCPL reflected a fluctuating trend during past three years ending March 31, 2021 wherein the total operating income stood at Rs. 232.07 crore to Rs. 259.13 crore during FY19 to FY21. Further, in FY21, the total operating income of SCPL has declined by 10.44% in FY21 wherein the same stood at Rs. 232.07 crore in FY21 vis-à-vis Rs. 259.13 crore in FY20 due to Covid-19 induced disruptions during peak summer season. However, the company has achieved total sales of Rs. 155.48 crore during H1FY22 (refers to period April 01, 2021 to September 30, 2021) and around Rs.218 crore in 9MFY22. Better revenue achievability is envisaged going forward, backed by better demand for ice creams given the gradual onset of summer season and ease of COVID-19 restrictions along with price increase in various segments of ice cream business and premium ice cream brand of SCPL 'J'Adore' making its mark in the market.

However, during FY21, the company derived around 90% of its revenues from sale in Gujarat and Maharashtra while in H1FY22, the company derived around 60% from sale in Gujarat and Maharashtra, followed by Rajasthan contributing around 17%, Madhya Pradesh 13% and remaining 10% from Jammu & Kashmir. Thus, there is geographic concentration of revenues in the western region, however, the company is making attempts to reduce the geographic concentration.

### ***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.}. Liquidity of SCPL remains moderate majorly on account of no credit extended by the company to its distributor whereas it pays to its creditors within 15 days and maintains inventory of around 1-1.5 month. SCPL has established its collection centre for milk (main RM) in the nearby villages whereas on account of its long standing business relations, it has established raw material sourcing

arrangement through local suppliers for other raw material. The fund-based working capital limit of SCPL remained highly utilised with average utilization at ~85-90% for the past twelve months ended November 2021 and at times it has been fully utilized also.

***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 manufacturers at local level.

***Adequate liquidity position***

The liquidity ratios of the company remained healthy with the current ratio at 1.51x as on March 31, 2021. The company has generated sufficient cash accrual of around Rs.21.32 crore in FY21 which was more than adequate for repayment of around Rs.10 crore in FY21. During the current fiscal, the company has already generated cash accruals of Rs.13.06 crore and is expected to generate cash accrual in the range of Rs.30.00 to Rs.32 crore during the current fiscal which is adequate to serve its debt repayment obligations. The company's average fund-based utilization for past twelve months ending November 2021 stood at 86%. 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. 5.46 crore in FY21 vis-à-vis positive cash flow operations at Rs. 10.91 crore in FY20. Also, free cash and bank balance stood at Rs. 4.08 crore as on March 31, 2021 vis-à-vis Rs. 0.56 crore as on March 31, 2020.

**Analytical approach:** Standalone

**Applicable criteria:**

[Policy on default recognition](#)

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

[Rating Outlook and Credit Watch](#)

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

[Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

**About the Company**

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.

The company has production capacity of 200,000 liters of ice cream and 10,000 kgs of namkeen per day. In off season, capacity utilization is 40% To 50% and during peak season the capacity utilization is 60% to 70%.

SCPL has various certifications in place like ISO 22000:2018, ISO 9001:2015, BRCGS-FSMA certification & EIC certificate, Halal Certificate, ISOQAR registration certificate, HACCP (Hazard Analysis and Critical Control Points) and others. SCPL has its manufacturing facility located in Amreli, Gujarat. SCPL markets its products through more than 300 employees, 430 distributors, 7 retail parlours, 50 super stockists and 30,000 retailers. The company owns 60 vehicles which includes refrigeration vehicles.

| Brief Financials (Rs. crore) | FY20 (A) | FY21 (A) | H1FY22 (Prov.) | 9MFY22 (Prov.) |
|------------------------------|----------|----------|----------------|----------------|
| Total operating income       | 259.13   | 232.07   | 155.48         | 218.99         |
| PBILDT                       | 32.60    | 23.15    | 17.32          | NA             |
| PAT                          | 9.81     | 6.10     | 7.70           | NA             |
| Overall gearing (times)      | 1.07     | 1.31     | 1.02           | NA             |
| Interest coverage (times)    | 6.94     | 3.64     | 10.96          | NA             |

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 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                 | -    | -                | -           | May 2028      | 30.95                         | CARE BBB-; Stable                         |
| Fund-based - LT-Working capital Term Loan | -    | -                | -           | November 2027 | 17.39                         | CARE BBB-; Stable                         |
| Fund-based - LT-Cash Credit               | -    | -                | -           | -             | 36.66                         | 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 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              | 30.95                          | CARE BBB-; Stable |   |   |   |   |
| 2       | Fund-based - LT-Working capital Term Loan | LT              | 17.39                          | CARE BBB-; Stable |   |   |   |   |
| 3       | Fund-based - LT-Cash Credit               | LT              | 36.66                          | CARE BBB-; Stable |   |   |   |   |

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

| Name of the Instrument            | Detailed explanation  |
|-----------------------------------|---|
| <b>A. Financial covenants</b>     |   |
| 1. Current Ratio                  | Borrower to maintain current ratio above 1.33 or as estimated and projected in CMA data   |
| 2. DE Ratio                       | Borrower to maintain DE Ratio (TTL/TNW) and DE Ratio (TOL/TNW) within 3.00 and 4.50 or as estimated and projected in CMA data     |
| <b>B. Non-financial covenants</b> |   |
| 1. Drawing Power                  | The drawing power derived from the stock statement shall be proportionately shared by both State Bank of India and Bank of Baroda |

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

| Sr. No | Name of instrument                        | Complexity level |
|--------|---|------------------|
| 1      | Fund-based - LT-Term Loan                 | Simple           |
| 2      | Fund-based - LT-Working capital Term Loan | Simple           |
| 3      | Fund-based - LT-Cash Credit               | 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](mailto:care@careedge.in) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. - +91-22-6754 3573

Email ID – [mradul.mishra@careedge.in](mailto:mradul.mishra@careedge.in)

### Analyst Contact

Mr. Vikash Agarwal

+91-22-67543604

Email ID - [vikash.agarwal@careedge.in](mailto:vikash.agarwal@careedge.in)

### Relationship Contact

Mr. Saikat Roy

Cell: + 91 98209 98779

E-mail: [saikat.roy@careedge.in](mailto:saikat.roy@careedge.in)

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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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