

February 09, 2023

## VLCC Health Care Limited: Rating upgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Fund-based/ Term Loan	39.03	21.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB-(Stable)
Short-term/ Fund-based/ Non-fund Based	14.50	24.00	[ICRA]A2; Upgraded from [ICRA]A3
Long-term/ Unallocated	1.47	10.00	[ICRA]BBB+(Stable); Upgraded from [ICRA]BBB-(Stable)
<b>Total</b>	<b>55.00</b>	<b>55.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA takes a consolidated view of VLCC Health Care Limited (VLHC) and its subsidiaries, VLCC Personal Care Limited (VLPC) and VLCC International, collectively referred to as the Group, while assigning the rating, given the common management as well as strong financial linkages between the entities.

The rating upgrade factors in the fresh equity infusion in the Group following its acquisition by global investment firm, Carlyle, which enables the company to fund its planned growth. These funds are expected to be utilised towards the Group's brand marketing and promotions particularly for the product segment as well as increasing market penetration through expansion of its wellness clinic network. The equity infusion has also resulted in improved liquidity and deleveraging of the Group's books. ICRA expects the Group's earnings and credit metrics to improve, going forward, aided by decreased reliance on debt and comfortable liquidity position. The Group's revenues grew in FY2022 with demand stabilising after lockdowns were lifted and store operations returned to normalcy. The growth in current fiscal FY2023 is expected to improve further given the plans for new store launches in Q4 FY2023. Further, profitability improved on the back of cost optimisation measures by focussing on employee productivity, reducing advertising expenses as well as receipt of rental concessions. The margin improvements sustained in the current fiscal (even in the absence of lease concessions) resulting in improved debt metrics. The ratings continue to derive comfort from the track record of the Group in the wellness industry. In addition, its established brand presence as well as footprint across geographies and segments facilitate cross-selling opportunities for the Group's offerings.

However, the ratings remain constrained by the significant competition across the Group's business segments, both in the wellness services as well as products business. The advent of various new age brands has resulted in intensified competition in this space; VLCC's ability to improve and sustain its market position is a key rating factor. Further, the company's ability to consistently focus on new product development will be critical, going forward, amid the stringent competition in the product vertical. Moreover, retaining a talented workforce is a crucial aspect for the services business.

The Stable outlook on the rating reflects ICRA's opinion that the VLCC Group will continue to derive benefits from its established brand presence and diversified business segments. Also, ICRA expects the investments towards capex for stores and promotions will augur well for the company, going forward.

### Key rating drivers and their description

#### Credit strengths

**Expected improvement in capital structure, debt metrics and liquidity post acquisition and funds infusion by Carlyle** – The Carlyle acquisition took place in December 2022 with a total shareholding of ~63% as on date, resulting in ~ Rs. 275 crore

coming into the books. The total Tangible Net Worth (TNW) is expected to improve to ~Rs. 440 crore by the end of FY2023 from Rs 137.5 crore in FY2022. In addition to marketing and promotions, part of the infused funds has been utilised to deleverage the balance sheet. The Group has repaid higher cost term loans and has reduced its working capital limit utilisation, also resulting in better limit buffers and, thus, liquidity position. As on date, the company has cash of ~Rs. 200 crore further supported by ~Rs. 60-70 crore of cushion in its working capital limits.

**Plans to expand established network along with promotions augur well for Group's future growth** – The fund infusion in the Group will be largely invested towards increased budget of advertising and sales promotion, capex towards opening of new clinics and refurbishment of existing ones, deleveraging and paying off stretched trade payables. The plans to open 10-12 new domestic stores in Q4 FY2023 along with more stores in domestic as well as international markets in FY2024 will result in further penetration of the Group and its associated brand name. The incremental investment towards sales and promotions will also help in increasing visibility of the Group's product division, which already has a healthy brand recall. The enhanced brand promotions will also result in cutting down some cost related to distribution. Nevertheless, the Group's ability to realise adequate returns from aforementioned initiatives will be a key rating factor.

**Sustained operating performance** – Over the last few years, the VLCC Group implemented several cost rationalisation strategies, including optimising employee costs, advertising expenses in addition to increasing productivity and improving the product and service mix. Along with substantial rental concessions, this led to revival in operating margins in FY2021 and FY2022 over FY2020. However, with demand stabilising further in the current fiscal, the Group has managed to improve its revenues and maintain its profitability despite no lease concessions and rolling back of some of the cost cutting measures. Reduction in aged creditors and paying off due incentives from the infused funds are expected to support improvement in operational performance, going forward.

**Established brand name** – VLCC has a strong and professional management team, which is expected to be further strengthened under the new ownership of Carlyle. The Group's position is further supported by its wide geographical reach and an established track record. The Group enjoys a healthy brand recall as a large and prominent player in the industry.

### Credit challenges

**Intense competition in industry and need to focus on new product development** – The Group faces significant competitive pressures across its business segments, from mainly smaller/unorganised players at local level and increasingly from large, organised players, particularly in the product category. Apart from its existing as well as new entrants, operations in the weight-loss and wellness markets are also subject to competition from alternative formats (such as gyms), which may pose a challenge to augment footfalls, together with evolving consumer preferences. Amid such competition, the Group will need to keep incurring adequate advertising expenses to drive growth and maintain brand recognition. The competition is more stringent in the products division where the company competes with big FMCG corporations as well as many new age brands. Therefore, continued focus on new product development remains critical.

**Risk of talent attrition** – The VLCC Group is in a business of providing services, which revolves mainly around its employees and on-ground workforce. Due to such dependence, the risk of attrition in quality and talented workforce results in deterioration of the quality of its services. Therefore, the risk of attrition remains a key challenge for the VLCC Group in both domestic as well as international markets.

### Liquidity position: Adequate

The VLCC Group, on a consolidated level, has adequate liquidity emanating out of healthy cash generation from operations supported by a short working capital cycle and healthy margins. The company has strong cash levels of ~Rs. 200 crore as on date, of which ~Rs. 165 crore is in free fixed deposit; however, a large part of this will be utilised towards expansion plans (~Rs. 115 crore in Q4 FY2023 and remaining in FY2024). Nevertheless, the Group has unutilised working capital limits of ~Rs. 60 crore, which supports liquidity. The company has debt repayments of ~Rs. 24 crore over Q4 FY2023 and FY2024.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the Group is able to showcase sustained improvement in its earnings profile and maintain its healthy debt coverage metrics with a comfortable liquidity profile.

**Negative factors** – Downward pressure on the ratings could emerge if there is a sustained decline in earnings. Any debt-funded capex resulting in deterioration of coverage indicators and weakening of the liquidity profile could also lead to downgrade in ratings. TD/OPBDITA higher than 2.3 times on a sustained basis may also warrant a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

## About the company

Incorporated in October 1996, VLCC Health Care Limited (VLCC HC) provides beauty, slimming, fitness and health services across domestic and overseas markets as well as sells beauty/ personal care products.

VLCC's operations can be broadly categorised into wellness (slimming and beauty), education and personal care products (product-sales). While the domestic wellness and education (vocational training courses) businesses are housed under the holding company, VLCC HC, the international wellness operations are under VLCC HC's subsidiary, VLCC International Inc. (VLCC International). The personal care products business (manufacturing and sales) is mainly carried out under another subsidiary, VLCC Personal Care Limited (VLCC PC). VLCC International, in turn, operates through ~25 subsidiaries and step-down subsidiaries. VLCC HC has been recently acquired by Carlyle and currently holds ~63% of the shares, whereas majority of the remaining shares is with one of the founders, Mr. Mukesh Luthra. The acquisition by Carlyle took place in December 2022, as part of which the Group received a sizeable fund infusion.

## Key financial indicators (audited)

Consolidated	FY2020 (A)	FY2021 (A)	FY2022 (A)
Operating income	769.6	532.9	660.8
PAT (Rs. crore)	-15.3	6.2	19.5
OPBDIT/OI (%)	18.5%	25.2%	25.3%
PAT/OI (%)	-2.0%	1.1%	3.0%
Total outside liabilities/Tangible net worth (times)	8.9	7.4	3.7
Total Debt/OPBDIT (times)*	2.6	2.4	1.7
Interest coverage (times)	2.6	3.1	3.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

\*Total debt in the above calculations include vendor bill discounting facility as well

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

S.No	Instrument	Current Rating (FY2023)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Current Rating	FY2022	FY2021	FY2020
					09-Feb-23	30-Nov-21	26-Aug-20	19-Aug-19
1	Fund Based/Term Loan	Long Term	21	9.87	[ICRA]BBB+(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BBB- (Negative)
2	Fund Based/Non-fund Based	Short Term	24	-	[ICRA]A2	[ICRA]A3	[ICRA]A4+	[ICRA]A3
3	Unallocated	Long Term	10	-	[ICRA]BBB+(Stable)	[ICRA]BBB-(Stable)	[ICRA]BB+(Stable)	[ICRA]BBB- (Negative)

Amount in Rs. crore

\*Outstanding as on 31<sup>st</sup> December 2022

### Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund based/Term Loan	Simple
Short-term Fund based/Non-fund Based	Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, are available on ICRA's website: [Click Here](#)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2016	NA	FY2024	21.00	[ICRA]BBB+(Stable)
NA	Fund-based/Non-fund Based	-	NA	-	24.00	[ICRA]A2
NA	Unallocated Limits	-	NA	-	10.00	[ICRA]BBB+ (Stable)

Source: Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
VLCC Health Care Limited	Holding company	Full consolidation
VLCC Personal Care Limited	100%	Full consolidation
VLCC International Inc.	100%	Full consolidation

Source: Company

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