March 21, 2024

# Ideal Ice Cream: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund based – Term loan** | 42.00 | 32.00 | [ICRA]BBB (Stable); reaffirmed |
| **Long-term – Fund based – Cash Credit** | 15.00 | 15.00 | [ICRA]BBB (Stable); reaffirmed |
| **Long-term - Unallocated** | - | 5.00 | [ICRA]BBB (Stable); reaffirmed |
| **Total** | **57.00** | **52.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating considers Ideal Ice Cream's (IIC) established brand in Mangalore, its expanding presence in the coastal Karnataka region and the proprietor's vast experience of more than two decades in the dairy products industry. The rating also considers the company's strong marketing and dealer distribution network, which, along with regular introduction of new products by IIC has supported its revenues. The firm has clocked revenues of around Rs. 107.0 crore in 11M FY2024, an annualised growth of ~24%, on the back of healthy demand supported by expansion in production capacity to 100 kilo litres per day (KLPD) from 70 KLPD. ICRA expects the company to record healthy revenue growth of 25-35% in FY2024 and 20-30% in FY2025, supported by launch of new products, expansion to new regions such as Hubli, Karwar, Sagara, Shimogha, Devanagere and Hassan, and healthy demand. The capital structure and debt coverage indicators of the firm remain comfortable due to healthy earnings.

The rating is, however, constrained by IIC's moderate scale of operations and exposure of margins to volatility in raw material prices. Moreover, the Mangalore region generates most of its revenues (~40-50%), resulting in high geographical concentration risks. However, ICRA notes that the concentration on Mangalore region has been reducing gradually given the firm's expanding presence to other districts in Karnataka and Maharashtra. The rating is also constrained by the inherent risks associated with the proprietorship nature of the business, including the risk of capital withdrawal, among others.

The Stable outlook on the rating reflects ICRA's expectations that the firm will ramp-up its operations in the new unit and maintain its comfortable debt protection metrics while recording healthy revenue and earnings.

## Key rating drivers and their description

### Credit strengths

**Extensive experience and established brand presence** – The firm has over two decades of experience in ice cream manufacturing, which resulted in established relationships with customers and suppliers. The Ideal Group, consisting of Ideal Traders (distributes IIC's products in Mangalore), four exclusive ice cream parlours in Mangalore (Ideal's, Ideal Cream Parlour, Ideal Cafe, and Pabba's) and IIC, enjoys an established brand presence in Mangalore and its surrounding regions. The Group has won various prestigious national awards for its innovative products.

**Strong distribution network** – The firm derives 84-86% of its revenues through its network of more than 35 distributors and over 2,000 retail dealers across Karnataka, South Goa and Kerala.

**Comfortable financial profile –** The firm's financial profile has remained comfortable with gearing of 0.8 times as on March 31, 2023, owing to lower debt levels and moderate net worth. The debt coverage indicators have remained comfortable in FY2023 with interest coverage of 6.0 times (3.8 times in FY2022), total debt/OPBDITA of 2.4 times (3.5 times in FY2022), and DSCR of 2.2 times (1.5 times in FY2022. The capital structure and debt coverage indicators are expected to improve, going forward, with scheduled repayment of debt and improved margins.

## Credit challenges

**Modest scale of operations** - The firm's scale of operations remained modest with revenues of Rs. 107.0 crore in 11M FY2024, despite improving from Rs. 93.8 crore in FY2023. ICRA expects the company to record revenue growth of 25-35% in FY2024 and 20-30% in FY2025. Healthy demand, increased capacity, and the company's plans to expand its presence to other parts of Karnataka and Pune, along with launch of new products are expected to support the company's revenue growth.

**Susceptibility to raw material price volatility** – The firm's profit margins remain susceptible to volatility in raw material prices (mainly milk and milk powder). Nevertheless, ICRA notes that the firm has maintained healthy profitability in the past. Moreover, the firm's operating margin has improved to 26.0% in FY2023 from 20.9% in FY2022, on the back of improved scale of operations and advance procuring of SMP, cream and butter at a lower price in higher quantities. Generally, the firm procures SMP, butter and cream in bulk which will be sufficient to meet the demand for six months. ICRA expects the profitability margins to remain healthy in FY2024 and FY2025 at 25-27% despite marginal moderation.

**High geographical concentration –** The Mangalore region is the major contributor to the firm's revenues (40-50%) while coastal Karnataka, South Goa and Kerala account for the rest, resulting in high geographical concentration risk. With the enhanced capacity, IIC has started expanding into other cities of Karnataka such as Hubli, Karwar, Sagara, Shimogha and Davanagere, with plans to cover most of the regions in Karnataka. This is expected to diversify its revenue stream in the near to medium term.

**Stiff competition in a highly fragmented industry limits pricing flexibility –** The intensely competitive and fragmented nature of the industry with organised as well as unorganised players in the region, limits IIC's overall bargaining power and pricing flexibility. However, the firm's established brand presence in Mangalore offers comfort to some extent.

**Risks associated with proprietorship nature of the firm** – Given IIC's constitution as a proprietorship firm, it is exposed to risks such as the possibility of withdrawal of capital by the proprietor.

## Liquidity position: Adequate

The liquidity position of the firm remains adequate with cash and bank balances of Rs. 5.1 crore and buffer of Rs. 7-9.0 crore against drawing power as on January 31, 2024. The firm is expected to generate retained cash flows of Rs. 18-20.0 crore against repayment obligations of Rs. 7-8.0 crore for the next 12 months. The company is expected to incur additional capex of Rs. 16-18.0 crore in FY2025 towards enhancing the installed capacity and the same is to be funded through mix of term debt, grant, and internal accruals.

## Rating sensitivities

**Positive factors –** ICRA could upgrade IIC's rating if healthy ramp-up of operations leads to significant increase in revenue and earnings, leading to improved cash flow on a sustained basis.

**Negative factors –** Pressure on the rating could arise if decline in scale of operations due to weak demand or lower profitability impacts its debt metrics, or any increase in working capital intensity weakens the liquidity position. A specific credit metric for a downgrade is if DSCR is lower than 1.5 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | The ratings is based on the company's standalone financial profile |

## About the company

The Ideal Ice Cream Group, established in 1975, was promoted by Mr. S. Prabhakar Kamath with a single ice cream parlour named Ideal Ice Cream Parlour in Mangalore, Karnataka. A part of the Ideal Ice Cream Group, IIC was started as a sole proprietorship concern in 2003 by Mr. Mukund Kamath, son of Mr. S. Prabhakar Kamath, for backward integration into large-scale ice cream manufacturing. The firm's manufacturing facility is in Mangalore with an installed production capacity of ~100 KLPD of ice creams, bars and candies. IIC also owns two windmills with a capacity of 1.25 MW each at Gadag and Hassan districts of Karnataka. It sells power from the windmills to the Karnataka Power Transmission Corporation Limited (KPTCL).

### Key financial indicators (audited)

| | FY2022 | FY2023 |
|---|---|---|
| Operating income | 61.0 | 93.8 |
| PAT | 1.0 | 9.2 |
| OPBDIT/OI (%) | 20.9% | 26.0% |
| PAT/OI (%) | 1.6% | 9.8% |
| Total outside liabilities/Tangible net worth (times) | 0.8 | 1.0 |
| Total debt/OPBDIT (times) | 3.5 | 2.4 |
| Interest coverage (times) | 3.8 | 6.0 |

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

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

### Any other information: None

## Rating history for past three years

| Instrument | Current rating (FY2024) | | | Chronology of rating history for the past 3 years | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Type | Amount rated (Rs. crore) | Amount outstanding (Rs. crore) | Date & rating in FY2024 | | Date & rating in FY2023 | | Date & rating in FY2022 | Date & rating in FY2021 | |
| | | | | Mar 21, 2024 | Apr 06, 2023 | Mar 15, 2023 | Apr 05, 2022 | Jul 21, 2021 | Sep 10, 2020 | Apr 06, 2020 |
| 1 Cash Credit | Long Term | 15.00 | - | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Negative) | [ICRA]BBB (Stable) |
| 2 Term Loan | Long Term | 32.00 | 32.00 | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Negative) | [ICRA]BBB (Stable) |
| 3 Unallocated | Long Term | 5.00 | - | [ICRA]BBB (Stable) | - | - | [ICRA]BBB (Stable) | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund-based – Cash Credit | Simple |
| Long-term Fund-based – Term Loan | Simple |
| Long Term - Unallocated | Not applicable |

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 I: Instrument details

| ISIN No | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (RS Crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Cash Credit** | - | - | - | 15.00 | [ICRA]BBB(Stable) |
| NA | **Term Loan** | May 2021 | - | March 2033 | 32.00 | [ICRA]BBB(Stable) |
| NA | **Long-term Unallocated Limits** | - | - | - | 5.00 | [ICRA]BBB(Stable) |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

## Annexure II: List of entities considered for consolidated analysis: Not applicable

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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