

May 31, 2024

VLCC Health Care Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term-Fund-based/ Term Loan	21.00	65.50	[ICRA]BBB+ (Stable); reaffirmed and assigned for enhanced limits
Short-term-Fund-based/ Non-fund Based	24.00	34.50	[ICRA]A2; reaffirmed and assigned for enhanced limits
Long-term- Unallocated	10.00	1.00	[ICRA]BBB+ (Stable); reaffirmed
Total	55.00	101.00	

*Instrument details are provided in Annexure-I

Rationale

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

The reaffirmation of the ratings factors in the sustained financial performance of the Group, supported by its track record of more than two decades in the domestic wellness industry. In addition, its established brand as well as presence across segments (slimming & beauty, products business and education institutes) in India as well as few other geographies (Middle East etc) facilitate cross-selling opportunities for the Group's offerings. The Group's revenues rose 19% on a YoY basis in FY2024 to ~Rs. 958 crore (as per the provisional estimates shared by the company). The same was driven by 19 net centre additions and a 20% growth in same store sales for the slimming and beauty business. Resumption in discretionary spending post the pandemic with inclination towards health-based slimming and other activities resulted in increased revenue per centre. The Group's operating profit margin (OPM), in spite of 40 bps moderation in FY2024 to 23.3% (as per provisional estimates), remains healthy. The moderation was driven by a significant increase in marketing spend, which is expected to continue in the near term. Overall, the VLCC Group's credit profile remains modest, as reflected in Total Debt/ OPBDITA of 1.8 times and interest coverage of 3.7 times as on March 31, 2024. The Group's liquidity position is also adequate, with free cash and bank balance and liquid investments of ~Rs. 60 crore as on March 31, 2024, in addition to unutilised fund-based working capital facilities of Rs. 78 crore on an average during FY2024. ICRA expects the Group to continue to witness low double-digit growth in revenues in the near term, supported by new centre additions. However, the OPM may moderate further until the new centres stabilise operations.

ICRA further notes VLHC's acquisition of men's grooming brand, Ustraa, from Happily Unmarried Private Limited (HUMPL) for a total consideration of Rs. 192 crore in June 2023, funded through a mix of cash and share swap. While this has resulted in a moderation in the liquidity position of the company, the management believes that they will be able to leverage Ustraa's online presence to cross sell VLCC's products and VLCC's offline presence to cross sell Ustraa's products. ICRA also understands that the Group has been able to significantly curtail the losses from Ustraa in FY2024 through stringent cost control measures.

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 intensified competition in this space. VLCC's ability to sustain its market position will be key for maintaining its comfortable credit profile. Further, the company's ability to consistently focus on new product development will be critical, going forward, amid the stringent competition in the products vertical. Moreover, retaining a talented workforce is crucial for the services business.

The Stable outlook on the long-term rating reflects ICRA's opinion that the VLCC Group will continue to maintain its comfortable credit and liquidity profile, supported by its established brand presence and diversified business offerings.

Key rating drivers and their description

Credit strengths

Extensive experience of the founder promoters in the industry with presence of over three decades; established brand name in the domestic wellness market – VLCC has an established track record of over three decades in the domestic wellness industry. The Group enjoys a healthy brand recall as a large and prominent player in the industry. It has a professional management team, which has strengthened further under the ownership of Carlyle (global investment firm). All these have aided the Group in maintaining a comfortable credit profile.

Diversified product and services offerings – The Group has diversified product and services offerings in the wellness segment, which facilitate cross-selling opportunities. The Group's position is further supported by its wide geographical reach with 192 wellness centres (including 117 owned centres and 75 franchise centres) and 95 education/vocational institutes in India along with 25 centres outside India as on March 31, 2024, partially insulating it from adverse developments in any particular market. Moreover, the recent acquisition of the brand, Ustraa, has provided the Group an entry into the men's grooming vertical, thus diversifying its reach from the largely women-centric grooming vertical.

Comfortable credit profile – The VLCC Group reported a 22% YoY growth in revenues in FY2023 and a further ~19% YoY increase in FY2024 (as per the provisional estimates shared by the company) to Rs. 958 crore, led by 19 net centre addition and increase in same store sales, by ~20% on YoY basis in FY2024. Resumption in discretionary spending with inclination towards health-based slimming and other activities resulted in increased revenue per centre for the Group. The OPM in FY2024, although declined marginally by 40 bps to 23.3% due to increase in marketing spends, remains healthy. Overall, the VLCC Group's credit profile remains modest, as reflected in Total Debt/ OPBDITA of 1.8 times and an interest coverage of 3.7 times as on March 31, 2024. ICRA expects the Group's credit profile to remain comfortable in the near term, supported by low double-digit growth in revenues.

Credit challenges

Intense competition in the industry and need to focus on new product development – The Group faces significant competitive pressure across its business segments, from mainly smaller/unorganised players at the local level and from large, organised players, particularly in the products category. Apart from the existing as well as new entrants, operations in the weight-loss and wellness segments are also subject to competition from alternative formats (such as gyms), which may pose a challenge to augment footfalls. Amid such competition, the Group will need to keep incurring adequate marketing 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 the 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 in the quality of its services. Therefore, the risk of attrition remains a key challenge for the VLCC Group in both domestic as well as in international markets.

Liquidity position: Adequate

The VLCC Group has adequate liquidity, emanating out of healthy cash generation from operations supported by a short working capital cycle and healthy OPM. The Group had free cash and bank balance and liquid investments of ~Rs. 60 crore as March 31, 2024, and unutilised fund-based working capital facilities of Rs. 78 crore on an average during FY2024. Against this, the company has debt repayments of ~Rs. 12.21 crore and Rs. 15.86 crore in FY2025 and FY2026, respectively. It also has capex

plans of ~Rs. 100-120 crore in FY2025 (which will be partly funded through the undrawn term loans of Rs. 65 crore) and Rs. 110 crore in FY2026.

Rating sensitivities

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

Negative factors – Pressure on the ratings could emerge if there is a sustained decline in earnings. Any debt-funded capex, resulting in a deterioration of coverage indicators and weakening of the liquidity profile on a continuous basis, could lead to ratings downgrade. Specific metric that may trigger a rating downgrade includes TD/OPBDITA of higher than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of VLCC Health Care Limited. As on March 31, 2024, the company had two subsidiaries, which are all enlisted in Annexure-2

About the company

Incorporated in October 1996, VLCC Health Care Limited (VLHC) provides beauty, slimming, fitness and health services across domestic and international geographies and sells beauty/personal care products.

VLCC's operations, at a group level, can be broadly divided into three categories, namely wellness (slimming and beauty), education and personal care products (product-sales). While the domestic wellness and education (vocational training courses) businesses are housed under VLCC HC, the international wellness operations are under VLHC'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 International, in turn, operates through ~25 subsidiaries and step down subsidiaries as on March 31, 2024.

In June 2023, VLHC acquired men's grooming brand, Ustraa, from HUMPL for a total consideration of Rs.192 crore to venture into men's grooming vertical.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	660.8	807.2
PAT	19.5	-60.3
OPBDIT/OI	25.3%	23.7%
PAT/OI	3.0%	-7.5%
Total outside liabilities/Tangible net worth (times)	3.7	1.3
Total debt/OPBDIT (times)	1.7	1.2
Interest coverage (times)	3.8	3.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; ; financial numbers are as per Ind AS 116

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				May 31, 2024	-	Feb 09, 2023	Nov 30, 2021	
1 Fund Based-Term Loan	Long Term	65.50	--	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	
2 Fund Based/Non-fund Based	Short Term	34.50	--	[ICRA]A2	-	[ICRA]A2	[ICRA]A3	
3 Unallocated	Long Term	1.0	--	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)	[ICRA]BBB- (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term-Fund based/Term Loan	Simple
Short-term-Fund based/Non-fund Based	Simple
Unallocated Limits	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2024	NA	FY2031	65.50	[ICRA]BBB+ (Stable)
NA	Fund-based/Non-fund Based	-	NA	-	34.50	[ICRA]A2
NA	Unallocated Limits	-	NA	-	1.00	[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

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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