



VLCC Personal Care Limited

Instrument	Amount Rated (Rs. Crore)	Rating Action
		April 2013
Fund Based Limits - Term Loan	1.00*	[ICRA]A+ assigned, Outlook positive
Fund Based Limits - Cash Credit	Enhanced to 30.00 from 17.50	[ICRA]A+ assigned, Outlook positive
Unallocated	Enhanced to 9.00 from 0.00	[ICRA]A+ assigned, Outlook positive

*Outstanding amount

ICRA has assigned a long term rating of [ICRA]A+ (pronounced ICRA A plus) to Rs.40.00 (enhanced from 19.50) crore bank facilities of VLCC Personal Care Ltd (VLCCPC). The outlook for the rating continues to remain "Positive".

The rating and outlook takes into account healthy growth in revenues being witnessed by VLCC Personal Care across different product categories which coupled with healthy level of operating profit margins have resulted in strong cash accruals for the business in relation to its debt levels and capital employed. The capital structure of VLCCPC has also remained favourable (with estimated gearing of 0.29x as on end of FY13) which coupled with healthy operating margins have resulted in comfortable debt service coverage indicators (as reflected by estimated Total debt/ OPBITDA of 0.77x and NCA/Total debt of 1.21x for the period ending FY13). However this said, the rating is constrained by the fact that that majority of revenues of the company emanate from the skin-care segment which in the wake of stiff competitive intensity from established domestic and international brands make the operating margins vulnerable, especially in a bid to achieve volumetric growth.

The rating also favourably factors in the established experience of promoters in the wellness space, healthy growth prospects strong brand presence of VLCC across operating geographies which provides cross-selling opportunities at VLCC's own slimming and beauty centres (operated by VLCC Healthcare Limited - rated [ICRA]A+(Positive)) . While ICRA takes into account efforts made by the company to further bolster its brand positioning in the personal care segment through own physical retail centres and kiosks, the geographical presence of its products still heavily relies on the distributor model which underscores the need to have continued investments in advertising for customer acquisition and retention. ICRA also takes note of working capital intensive nature of operations of the personal care business which coupled with company's focus on increasing retail store presence is expected to intensify inventory holding requirements and thus keep the reliance of working capital lines high.

The rating also favourably takes into account fiscal incentives available till FY2019 to the company by the way of location of its manufacturing plant in Haridwar. With healthy volume growth, expected saturation of existing manufacturing capacity and in a bid to cater to new markets in North-East, Nepal and Bangladesh, the company plans to add new manufacturing plant in Guwahati with an estimated investment of Rs 35.00 crore and is estimated to be completed during FY15. While the company will enjoy various fiscal incentives at this location too, the funding pattern for the proposed capital expenditure and market acceptability of VLCC's products in these new geographies remains to be seen.

Going forward, ICRA expects the company to witness healthy revenue growth though, in a bid to achieve volumetric growth; there may be a marginal correction in operating profit margins. The extent of growth, working capital intensity levels and profitability margin will be the key drivers for its cash accruals and determinants for borrowing levels to fund the organic growth plans and hence will remain key sensitivities.



Company Profile

Incorporated in September 2000, VLCCPC is engaged in the manufacture and sale of solution based skin-care, hair-care and body-care products. The company is a wholly-owned subsidiary of VLCC Healthcare Ltd (VLCCHL). The company has manufacturing facilities in Haridwar and Dehradun with an installed capacity of ~55 million units per annum. The premise in Dehradun is on rent, while the Haridwar unit is owned. The company is entitled to various fiscal incentives owing to location of its manufacturing plant.. Majority of the revenues for VLCC Personal Care have been derived from the domestic market where the company markets its products through C&F Agents, Distributors and Retail Counters. The company has witnessed robust growth over the last two years through reduction in price points, increasing shelf space and investing in brand recall. In FY2012, VLCC Personal Care Ltd registered operating revenues of Rs.101.41 crore which grew from Rs.63.10 crore in FY2011. The PAT grew from Rs.12.65 crore in FY2011 to Rs.16.70 crore in FY2012. During 9MFY2013, the company reported provisional revenues of Rs.94.30 crore as against Rs 70.95 crore in previous corresponding period.

April 2013

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