November 26, 2024

VLCC Personal 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/ Cash Credit	60.00	103.40	[ICRA]BBB+ (Stable); reaffirmed; assigned for enhanced amount
Long-term- Unallocated	6.00	-	-
Total	**66.00**	**103.40**	

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 long track record of more than two decades of VLCC group 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 20% on a YoY basis in FY2024 to Rs. 965.6 crore. The same was driven by 19 net centre additions and a 20% growth in same store sales in 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. However, the Group's operating profit margin (OPM) moderated by more than 910 bps in FY2024 to 13.9% due to one-off expenses amounting to Rs. 60.0 crore related to inventory/liabilities write-offs pertaining to new Ustraa business acquired, management transition cost, sales return in VLCC PC, one-off marketing spending, among others. Of these, Rs. 40 crore as cash expenses and Rs. 20 crore are non-cash expenses in nature. ICRA understands are one-offs in nature and are not expected to recur this year, as confirmed by the management. Furthermore, the group recorded revenues of Rs. 467 crore with Operating profit before depreciation, interest, taxes and amortisation (OPBDITA) of Rs.75 crore in H1 FY2025. Overall, the VLCC Group's credit profile remains modest, as reflected in Total Debt vis-a-vis OPBDITA of 3.2 times and interest coverage of 2.2 times in FY2024. The Group's liquidity position is also adequate, with free cash and bank balance and liquid investments of Rs. 76.8 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 August 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 20% YoY increase in FY2024 to Rs. 965.6 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. However, the Group's operating profit margin (OPM) moderated by more than 910 bps in FY2024 to 13.9% due to one-off expenses amounting to Rs. 60.0 crore related to inventory/liabilities write-offs pertaining to new Ustraa business acquired, management transition cost, sales return in VLCC PC, one-off marketing spending, among others. Of these, Rs. 40 crore as cash expenses and Rs. 20 crore are non-cash expenses in nature. ICRA understands are one-offs in nature and are not expected to recur this year, as confirmed by the management. Furthermore, the group recorded revenues of Rs. 467 crore with Operating profit before depreciation, interest, taxes and amortisation (OPBDITA) of Rs.75 crore in H1 FY2025. Overall, the VLCC Group's credit profile remains modest, as reflected in Total Debt(including lease liabilities)/ OPBDITA of 3.2 times (adjusting for the one-off expenses total debt to OPBDITA of 2.2 times) and an interest coverage of 2.2 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. 52.0 crore as September 30, 2024, and unutilised fund-based working capital facilities of Rs. 25 crore on an average during last 7 months ended on October 30,2024. Against this, the company has debt repayments of ~Rs. 12.21 crore and Rs. 15.86 crore in FY2025 and FY2026, respectively pertaining to loans outstanding as on March 31,2024. It also has capex plans of ~Rs. 100-120 crore in FY2025 (which will be funded through term loans and internal accruals) 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/OPBIDTA of higher than 2.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology FMCG
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 ~10 subsidiaries and step-down subsidiaries as on March 31, 2024.

In August 2023, VLHC acquired men's grooming brand, Ustraa, from 'Happily Unmarried Private Limited' (HUMPL) for a total consideration of Rs.192 crore to venture into men's grooming vertical.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	799.8	965.6
PAT	-67.7	-40.6
OPBDIT/OI	23.0%	13.9%
PAT/OI	-8.5%	-4.2%
Total outside liabilities/Tangible net worth (times)	1.3	1.6
Total debt/OPBDIT (times)	1.2	3.2
Interest coverage (times)	3.6	2.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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

	Current (FY2025)					Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Nov 26, 2024	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund Based-Cash Credit	Long Term	103.40	[ICRA]BBB+ (Stable)	31-May-24	[ICRA]BBB+ (Stable)	-	-	09-Feb-23	[ICRA]BBB+ (Stable)	30-Nov-21	[ICRA]BBB- (Stable)
				28-Oct-24	[ICRA]BBB+ (Stable)						
Fund Based-Term Loan	Long Term	-	-	-	-	-	-	09-Feb-23	[ICRA]BBB+ (Stable)	30-Nov-21	[ICRA]BBB- (Stable)
Unallocated	Long Term	-	-	31-May-24	[ICRA]BBB+ (Stable)	-	-				
				28-Oct-24	[ICRA]BBB+ (Stable)						

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term - Fund Based/Cash Credit	Simple

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	Fund Based/Cash Credit	-	NA	-	103.40	[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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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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