

March 15, 2023

Ideal Ice Cream: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash Credit	10.00	10.00	[ICRA]BBB(Stable); Reaffirmed
Long-term – Fund-based – Term Loan	32.75	33.75	[ICRA]BBB(Stable); Reaffirmed
Long-term – Unallocated	1.00	0.00	-
Total	43.75	43.75	

*Instrument details are provided in Annexure-I

Rationale

The rating considers Ideal Ice Cream's (IIC) established brand presence in the Mangalore and coastal Karnataka region and the proprietor's vast experience of more than two decades in the dairy products industry. The rating also considers IIC's strong marketing and dealer distribution network, which along with regular introduction of new products by IIC has supported entity's revenues. The firm has clocked revenues of Rs. 82.0 crore in 11M FY2023, annualised growth of ~47%, on the back of healthy demand and supported by expansion in production capacity to 70 kilo litres per day (KLPD) from 40 KLPD. ICRA expects the company to record healthy revenue growth of 10-20% in FY2024 as well, supported by launch of new products and healthy demand. The company would complete its capacity expansion to 120 KLPD, with incremental capacity expected to be operational from Q2 FY2024. The capital structure and debt coverage indicators of the firm remain comfortable on the back of healthy earnings.

The rating, however, is constrained by IIC's moderate scale of operations and exposure of margins to volatility in raw material prices. The company's ability to ramp-up the operations with enhanced capacity would be monitorable. Moreover, the Mangalore region generates most of its revenues (~50%), resulting in high geographical concentration risks. However, the same is expected to be mitigated, to an extent, given the firm's efforts to expand its presence to the other regions of Karnataka. 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 expectation that the firm will ramp up its operations in the new unit and maintain its comfortable debt protection metrics while recording healthy revenue and improvement in its margins.

Key rating drivers and their description

Credit strengths

Extensive experience and established brand presence – The firm has two decades of experience in ice cream manufacturing, which resulted in established relationships with various 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 awards at the national level for its innovative products.

Strong distribution network – The firm derives ~86% of its revenues through its distribution network of more than 17 distributors and 2,000 retail dealers across Karnataka, South Goa, and Kerala (Kasaragod). Besides, significant revenue contribution from its sister concerns provides comfort to a great extent.

Comfortable financial profile – The firm's financial profile has remained comfortable with gearing of 0.7 time as on November 30, 2022, and March 31, 2022, owing to lower debt levels and moderate net worth. The debt coverage indicators of the firm have remained comfortable in 8M FY2023 with interest coverage of 5.9 times (3.8 times in FY2022), total debt/OPBDITA of 2.2

times (3.5 times in FY2022), and DSCR of 5.9 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. 82.0 crore in 11M FY2023, despite improving from Rs. 61.0 crore in FY2022. ICRA expects the company to record 45-55% growth in FY2023 and 10-20% growth in FY2024. Healthy demand, increased capacity, and the company's plans to expand its presence to other parts of Karnataka, 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 the volatility in the raw material prices (mainly milk and milk powder prices). Nevertheless, ICRA notes that the firm has maintained healthy profitability in the past. Moreover, the firm's operating margin (OPM) increased to 24.3% in 9M FY2023 (20.9% in FY2022) on the back of higher revenue leading to operating leverage, better product-mix, and bulk procurement of SMP during the flush season at lower prices. In tandem with OPM, the profit after tax (PAT) margin also improved and stood at 9.8% in 9M FY2023 (1.6% in FY2022). ICRA expects the profitability margins to remain healthy in FY2024 despite marginal moderation.

High geographical concentration – The Mangalore region accounts for most of the firm's revenues (~50.0%) while coastal Karnataka, South Goa and Kerala add up to the rest, resulting in high geographical concentration risk. With the enhanced capacity, IIC has started expanding into other cities of Karnataka such as Bangalore, Mysore, Belgaum and Hubli, with plans to enter into rural Karnataka from FY2024, which 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 players as well as several 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 undrawn working capital limits of ~Rs. 3.0 crore as on February 28, 2023, and cash and bank balances of Rs. 1.9 crore as on November 30, 2022. IIC's retained cash flows are expected to be in the range of Rs. 5.0–10.0 crore against a debt repayment obligation of Rs. 7.0–8.0 crore for the next 12 months. The company is expected to incur additional capex of Rs. 3.0 crore in FY2024 towards purchase of additional machinery and the same is to be funded through unsecured loans from the promoter and his family.

Rating sensitivities

Positive factors – ICRA could upgrade IIC's rating if healthy ramp-up of operations in the new unit leads to significant increase in revenue and earnings, which improves its cash flow position.

Negative factors – Negative 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. Specific credit metrics, which may impact the ratings are interest coverage lower than 3.0 times and DSCR 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 are based on the company's standalone financial profile.

About the company

Established in 1975, Ideal Ice Cream Group 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 ~70 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). The firm's installed capacity has increased to 70 KLPD from 40 KLPD from Q3 FY2022 onwards.

Key financial indicators (audited)

Standalone	FY2021	FY2022	8MFY2023*
Operating income (Rs. crore)	45.5	61.0	58.1
PAT (Rs. crore)	5.3	1.0	5.7
OPBDITA/OI	27.5%	20.9%	24.3%
PAT/OI	11.7%	1.6%	9.8%
Total outside liabilities/Tangible net worth (times)	0.9	0.8	0.8
Total debt/OPBDIT (times)	3.7	3.5	2.2
Interest coverage (times)	5.3	3.8	5.9

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; OI – Operating income; Amount in Rs crore;

*Provisional numbers

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years					
		Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020
				Mar 15, 2023	Apr 05, 2022	Jul 21, 2021	Sep 10, 2020	Apr 06, 2020	-
1 Cash Credit	Long Term	10.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-
2 Term Loan	Long Term	33.75	32.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)	[ICRA]BBB (Stable)	-
3 Unallocated	Long Term	0.00	-	-	[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

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	NA	-	-	10.00	[ICRA]BBB (Stable)
NA	Term Loan	May 2021	-	March 2033	33.75	[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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Branches



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