



VLCC Personal Care Limited

| | Amount | Rating Action |
|----------------------------|--------------|--------------------------------|
| | In Rs. Crore | Nov'15 |
| Fund based bank facilities | 40.00 | [ICRA]AA- (Stable); reaffirmed |

ICRA has reaffirmed the long-term rating for the Rs. 40 crore* fund-based bank facilities of VLCC Personal Care Limited (VLCC PC) at [ICRA]AA- (pronounced ICRA double A minus). Outlook on the rating continues to be stable.

While assigning the ratings, ICRA has taken a consolidated view of the VLCC group ("group"/"VLCC"), which includes VLCC Health Care Limited (VLCC HC, the holding cum operating company of the group) and its subsidiaries, due to significant investments in subsidiaries and inter-company transactions.

The rating-reaffirmation primarily factors in the sustained strong credit profile of the VLCC group†. Further while reaffirming the rating, ICRA has taken into consideration the consistent and healthy year-on-year growth in VLCC PC's scale of operations as well as cash accruals, which together with no term liabilities and limited capital expenditure requirements, has resulted in the generation of strong free cash flows - thereby rendering it significant financial flexibility to fund the growth. This is further corroborated by the marginal utilization of its working capital limits despite the high working capital requirements of the business and funding support extended to its group entities.

Operationally, the utilization of the company's existing manufacturing capacity continues to be moderate (~30% considering 22-hour working) which provides ample scope for growth in the short to medium term without major capital expenditure. Nevertheless, the company plans to set up a new manufacturing unit in the North-East (at an estimated investment of ~Rs 30 crore) in order to cater to new markets as well as to benefit from fiscal incentives being offered at the location. In light of this, ICRA notes that the fiscal incentives available at company's existing manufacturing unit are set to expire in FY19, which partially support the company's profitability margins. The capex for the new unit is proposed to be funded from IPO proceeds of VLCC HC. However, even in the event of a delay in IPO, ICRA expects the company's cash accruals to be adequate for funding said capex. Accordingly, this is unlikely to have a material impact on the company's credit profile.

The rating, however, continues to be constrained by the intense competitive pressures from several established brands in the personal care segment, which necessitate continued investments in mass media advertising and product innovation for customer acquisition and retention and in turn exert pressure on operating margins of the company. Nevertheless, ICRA notes that the company benefits immensely from the strong brand presence of VLCC, its established sales network as well as opportunities to cross-sell in the centers operated by its group entities.

In ICRA's view, the company's ability to maintain revenue growth, improve profitability margins as well as to reduce working capital intensity of its operations will be the key rating sensitivities. Further, the overall credit profile of the group will remain a key rating driver, given the consolidated view taken by ICRA on group entities.

Company Profile

Incorporated in September 2000, VLCC PC is a wholly-owned subsidiary of VLCC Health Care Limited (VLCC HC) engaged in the manufacture and sale of solution-based skin-care, hair-care and body-care products. The company's manufacturing unit located in Haridwar (Uttarakhand) has an

* 100 lakh = 1crore = 10 million

† ICRA has [ICRA]AA-(Stable) and [ICRA]A1+ ratings outstanding for the bank facilities of VLCC HC (VLCC PC's parent company and holding company for group's operations). For detailed rationale on VLCC HC, please visit ICRA's website – www.icra.in



installed capacity of manufacturing 5.02 million units per month. The company is entitled to various fiscal incentives owing to the location of its manufacturing unit in Haridwar.

Almost three-fourths of VLCC PC's revenues are derived from the domestic market where the company markets its products through C&F agents, distributors and retail counters. The company also sells products to its group entities involved in providing slimming and beauty services. Less than 5% of total sales of the company are used for captive consumption in the group's slimming and beauty operations.

Recent results

On a standalone basis, VLCC PC reported an operating income (OI) of Rs. 200.6 crore and a profit after tax (PAT) of Rs. 22.9 crore in FY15 as compared to an OI of Rs.153.3 crore and PAT of Rs. 23.2 crore in FY14.

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