

Rating Rationale

March 20, 2023 | Mumbai

Sheetal Cool Products Limited

'CRISIL BBB/Stable' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	Rs.95 Crore
Long Term Rating	CRISIL BBB/Stable (Assigned)

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its 'CRISIL BBB/Stable' rating on the long-term bank facilities of Sheetal Cool Products Limited (SCPL).

The rating reflects SCPL's established market position, sound operating efficiency and an average financial risk profile. These strengths are partially offset by working capital intensive operations, higher bank limit utilisation, and susceptibility to volatility in milk prices.

Key Rating Drivers & Detailed Description

Strengths:

Established market position

SCPL has established presence in Gujarat, which provides it operating flexibility in an intensely competitive industry. Further, the promoter's extensive experience, strong understanding of market dynamics, and healthy relations with customers and suppliers will continue to support the business. Company derives over 75% of revenue from Gujarat, followed by Maharashtra contributing over 15% and remaining from Rajasthan, Madhya Pradesh, etc. Furthermore, company also derived benefit from diversified product mix. As a result, business performance has improved year-on-year and revenue expected to grow in range of 10-15% over the medium term.

Sound operating efficiency

The company has sound operating efficiency with operating margin remained in range of 9-12% in the past and reported 12% in FY22 (against 9.8% in FY21) backed by improved product mix, captive power consumption, inhouse logistic and packaging units. Subsequently, its ROCE also improved to 22.46% in FY22 (against 13.11% in FY21) and expected to remain over 20% over the medium term.

Average financial risk profile

The company had a satisfactory networth of Rs 73.11 crore with gearing of 1.01 times as on March 31, 2022. Its debt protection metrics were comfortable, with interest coverage and net cash accrual to adjusted debt ratios of 6.7 times and 0.40 time, respectively, in fiscal 2022. In absence of large debt funded capex and marginal incremental working capital requirement, the financial risk profile expected to improve over the medium term.

Weaknesses:

Working capital intensive operations and higher bank limit utilisation

The operation of company is working capital intensive with GCA of 152 days in FY22 and are largely dominated by inventory of 144 days. Though, company received the enhancement in bank lines recently, its utilisation remains around 95% during past twelve months ended January 2023. The ability of company to improve working capital cycle and subsequently decline in bank limit utilisation remain key monitorable.

Susceptibility to volatility in milk prices

The price of milk is sensitive to any adverse impact of changes in government policies, and to environmental conditions. The industry also exposed to steady increase in animal feed prices and rural wages, and thus, have an adverse impact on industry players. Also, entities in the segment are susceptible to failure in milk production because of external factors such as cattle diseases; through the mentioned risk is mitigated by established network for milk procurement.

Liquidity: Adequate

Liquidity is adequate with expected net cash accruals of over Rs 31 crore against term debt obligation of Rs 8-10 crore over the medium term; surplus expected to deploy towards incremental working capital requirement. The bank lines were utilised over 95% during past 12 months ended January 2023. The ability of company to improve working capital cycle and subsequently lower reliance on external working capital borrowing remain key monitorable. The current ratio was comfortable at 1.76 times as on March 31, 2022.

Outlook: Stable

CRISIL Rating believes SCPL will continue to benefit from its promoters' extensive experience and improving financial risk profile.

Rating Sensitivity factors

Upward factors

- Sustained rise in revenue along with steady operating margin leading to healthy net cash accruals
- Improvement in GCA below 100 days and simultaneously lower reliance on working capital bank borrowings improves financial risk profile especially liquidity profile

Downward factors

- Sharp decline in accruals below Rs 22 crore, on sustained basis
- Elongation in working capital cycle, higher than expected debt funded capex weakens financial risk profile especially liquidity

About the Company

SCPL was originally formed as a sole proprietorship under the name "M/s. Shree Shital Industries" in the year 2000 by Late Shri Jagdishbhai D. Bhuva. Subsequently, sole proprietorship was converted into a partnership firm under the name M/s. Shree Shital Industries. Later, the name of the partnership firm was changed to Shital Cool Products on September 11, 2013 and, thereafter converted to a Private Limited Company on October 14, 2013 named as "Sheetal Cool products Pvt Ltd". Subsequently, in 2017, the company became a public limited company called "Sheetal Cool Products Limited" (SCPL). Company manufactures ice cream, milk & milk products, food products like namkeen, wafers, fryums, frozen, Bakery & Sweet products. Company is listed on BSE & NSE.

Key Financial Indicators

Particulars	Unit	2022	2021
Revenue	Rs crore	336.02	235.55
Profit after tax (PAT)	Rs crore	18.43	6.1
PAT margin	%	5.48	2.59
Adjusted debt/adjusted networth	Times	1.01	1.31
Interest coverage	Times	6.67	3.48

Status of non cooperation with previous CRA:

SCPL had previously not cooperated with INFOMERICS Valuation and Rating Private Limited, which had published its ratings as an issuer not cooperating vide a release dated May 31, 2022. The reason provided by INFOMERICS Valuation and Rating Private Limited was no furnishing of information by SCPL for monitoring the ratings

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings' complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Cash Credit	NA	NA	NA	55	NA	CRISIL BBB/Stable
NA	Proposed Fund- Based Bank Limits	NA	NA	NA	7	NA	CRISIL BBB/Stable
NA	Term Loan	NA	NA	Nov-27	33	NA	CRISIL BBB/Stable

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2023 (History)		2022		2021		2020		Start of 2020
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	95.0	CRISIL BBB/Stable		--		--		--	23-09-20	Withdrawn (Issuer Not Cooperating)*	CRISIL BB+/Stable(Issuer Not Cooperating)*
			--		--		--		--	30-06-20	CRISIL BB+/Stable(Issuer Not Cooperating)*	--

All amounts are in Rs.Cr.

* - Issuer did not cooperate; based on best-available information

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	55	Bank of Baroda	CRISIL BBB/Stable
Proposed Fund-Based Bank Limits	7	Not Applicable	CRISIL BBB/Stable
Term Loan	33	Bank of Baroda	CRISIL BBB/Stable

This Annexure has been updated on 20-Mar-2023 in line with the lender-wise facility details as on 20-Mar-2023 received from the rated entity.

Criteria Details

Links to related criteria
Rating criteria for manufacturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition

[CRISILs Approach to Financial Ratios](#)

[Understanding CRISILs Ratings and Rating Scales](#)

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