Vadilal Enterprises Limited

October 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	18.10 (Reduced from 21.97)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	0.50	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable/ A Three)	Reaffirmed; Outlook revised from Negative
Total Bank Facilities	**18.60 (Rs. Eighteen Crore and Sixty Lakhs Only)**		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vadilal Enterprises Limited (VEL) continue to derive strength the vast experience of its promoters along with long-standing track record with established operations of VEL in ice-cream business, more than a century old presence of the 'Vadilal' brand in the domestic ice-cream market supported by its strong marketing and distribution network and strong operational linkage with Vadilal Industries Limited (VIL; rated CARE BBB-; Stable/ CARE A3) due to VEL's exclusive rights for selling and distribution of ice-cream and other products manufactured by VIL in the domestic market. The ratings also factors in its moderate scale of operations which declined in FY21 (FY refers to the period from April 1 to March 31) but has shown improvement in Q1FY22 on y-o-y basis.

The above strengths are, however, tempered on account of very thin profitability margins of VEL due to the trading nature of its operations along-with very small net-worth base resulting in very high leverage and high competition in the ice-cream segment from the organized as well as un-organized players. The ratings are also constrained by delay in resolution of allegations made by promoters and pending outcome of ongoing investigation on certain matters which has formed the basis for auditor's qualified opinion in FY21.

Outlook: Stable

The revision in outlook of long-term rating assigned to the bank facilities of VEL from 'Negative' to 'Stable' takes into account better than envisaged performance in FY21 with company reporting improvement in margin despite decline in scale of operation which is linked to performance of VIL wherein it has reported better than envisaged profitability in FY21 and improvement in performance during Q1FY22 supported by its export business.

Rating Sensitivities

Positive Factors

- Stabilization of its scale of operations at pre-COVID levels through improvement in the performance of VIL
- Significant improvement in leverage marked by overall gearing below 6 times
- Improvement in profitability margins marked by PAT margin above 1%

Negative Factors

- Deterioration in financial risk profile of VIL for whom VEL acts as a marketing arm
- Any materially negative outcome arising from the on-going independent investigation being conducted on the matters referred under qualified opinion issued by its statutory auditors in their audit report for FY21
- Deterioration in debt coverage indicators with interest coverage of less than 2 times and TDGCA of more than 3 times

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

VEL is promoted by the promoters of VIL and both companies operate under common management platform. Currently, the operations of VEL are managed by the third and fourth-generations of the family i.e. Mr. Rajesh Gandhi, Director, looks after the overall operations of the company, Mr. Devanshu Gandhi, Director, looks after the sales, marketing and 1Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications. 2 CARE Ratings

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Limited Press Release distribution functions and Mr. Kalpit Gandhi (Son of Mr. Rajesh Gandhi) looks after the plant operations on day to day basis.

Exclusive rights for selling & distribution of 'Vadilal' brand products in the domestic market

VEL acts as the marketing arm for selling and distribution of Vadilal brand Ice-cream, frozen desserts and processed food products manufactured by VIL in India, thereby entailing strong operational linkages between the two companies with VEL's prospects being closely linked to that of VIL. While VIL has its own overseas subsidiaries for selling and distribution of its products in foreign countries, its selling and distribution for the Indian market is looked after by VEL on an exclusive basis.

***Long standing track record with an over century old brand* 'Vadilal'**

The brand 'Vadilal' has been enjoying a well-known legacy for more than a century in the domestic ice-cream and frozen dessert business. The brand has healthy market share in the states like Gujarat, Rajasthan, UP and Haryana. The product portfolio of VIL's ice-cream and frozen dessert includes more than 150 flavors and varieties in different forms like cups, candies, cones, kulfis, tubs, large packs, etc. Apart from ice-cream and frozen dessert, the group also ventured into processed food business under the brand 'Quick Treat'. Further, the revenue stream of VEL is also moderately diversified geographically as it earns majority of its ice-cream revenue from the states of Gujarat, Rajasthan, Uttar Pradesh and Haryana; whereas balance comes from other states.

Strong marketing and distribution network

VEL has marketing presence in 23 states of India with the support of 63 C&F agents, over 1,200 distributors, more than 55,000 retailers and 290 distribution vehicles. VEL also offers a wide range of ice-cream and frozen desserts through nearly 300 SKUs (Stock Keeping Units) in leading modern trade outlets like Reliance Fresh, More, Hyper City, D-Mart, Food Bazaar and Star Bazaar, etc.

Moderate scale of operations which declined in FY21 but has shown improvement in Q1FY22

VEL acts as the sole marketing arm of VIL in the domestic market and accordingly its fortunes are very closely linked to the prospects of VIL. Sales and profitability of VIL remain skewed towards Q1 in each financial year due to summer season wherein maximum consumption of ice-cream takes place. VIL had reported decline in scale of operations cash losses in H1FY21 owing to coincidence of Covid-19 induced lockdown with its peak sales season. However, VIL was able to turnaround its performance in H2FY21 and registered cash profit of Rs.19.25 crore which was better than envisaged levels due to better recovery post Covid disruption, cost control measures implemented by management and superior performance of its USA subsidiary named Vadilal Industries (USA) Inc.

TOI of VEL reduced by 42% Y-o-Y and remained moderate at Rs.341.97 crore [Rs.592.80 crore in FY20]. However, TOI of VEL improved from Rs.70.65 crore in Q1FY21 (UA) to Rs.139.70 crore in Q1FY22 (UA) owing impact of Covid 19 second wave for shorter period resulting in improvement in performance on y-o-y basis but TOI still lower than pre-Covid levels. Going forward with increase inoculation, opening of economy is expected to led to better demand from domestic market.

Key Rating Weaknesses

Thin profitability margin

VEL acts as the marketing arm for VIL in India, and hence, due to its nature of business, profitability margins remain inherently very thin in VEL marked by PBILDT margin and PAT margin of 5.22% [2.56% in FY20] and 0.25% [net loss of Rs.0.83 crore in FY20] respectively in FY21. Operating margin improved owing to lower advertisement expenses which reduced from Rs.32.35 crore in FY20 to Rs.10.69 crore in FY21 as company reduced advertising expense in challenging times of Covid-19. However, during Q1FY22, PBILDT margin of VEL deteriorated to 2.37% [8.04% in Q1FY21 (UA)] and net loss of Rs.0.40 crore with increased marketing spends.

Leveraged capital structure and moderate debt coverage indicators

Capital structure of VEL improved over the previous year owing to reduction of total debt as on March 31, 2021, however, it continued to remain leveraged due to very limited build-up of net-worth because of its low value added trading activity marked by overall gearing of 5.22 times as on March 31, 2021. Overall gearing is expected to deteriorate as the company is planning to purchase freezer machines worth Rs.20 crore which are envisaged to be funded through proposed term loan of Rs.15 crore and rest through internal accruals.

Debt coverage indicators of the company remained moderate marked by interest coverage ratio of 3.70 times and TDGCA of 0.90 times for the year ended on March 31, 2021.

High competition in the ice-cream segment from the organized as well as un-organized players

Indian ice-cream market is largely dominated by un-organized players with innumerable small and seasonal companies doing the business in various regions. Further, there are large number of big and medium-sized ice-cream companies in India which leads to a highly competitive environment. Although, there is a huge opportunity for industry players since India is one of the fastest growing markets for ice-cream consumption due to its large population and growing per capita income; however, VEL faces high competition from various other established brands like Amul, Havmor, Kwality Walls, Cream Bell, Mother Dairy, Top 'N' Town, Dinshaw's, etc in its various key markets. In addition, Vadilal faces competition from unorganized ice-cream manufactures at local level.

Delay in resolution of allegations made by promoters and pending outcome of ongoing investigation on certain matters which has formed the basis for auditor's qualified opinion in FY21

On account of various disputes between two brothers of the promoter group who were also on the Board of VIL, auditor had issued disclaimer of opinion on the accounts for FY19. However post that, the promoter directors have withdrawn their major counter claims against each other and the quarterly results of the company are also getting published within timelines. Further, both promoter brothers are re-appointed as Managing Directors of VIL. Also, an external law firm & CA firm were appointed by independent board members to verify the left out claims of the promoters. During FY21, the company has received interim audit report on certain matters which exhibited no adverse observations or findings regarding the allegations related to operational and management matters. However, the auditor have maintained a qualified opinion due to pending receipt of the report over other allegations levelled by the promoter directors on each other over potential personal expenses that were claimed as business expenses.

Further, a new allegation by a promoter director arise in FY21 in Vadilal Enterprises Limited relating to matter involving operations and management issue wherein marketing expenses of advertisement amounting to Rs.38 crore paid by the company during the period FY16 to FY19 alleged to be done without following the due process of the Company. The said allegation also handed over to same independent CA firm and law firm to investigate and report of the same is pending.

Liquidity: Adequate

VEL's liquidity stood adequate considering its operational linkage with VIL. On standalone basis it has moderate limit utilization of around 31% for past twelve months ended in August, 2021 and is expected to generate cash accruals of Rs.16-17 crore against scheduled debt repayment obligation of Rs.7.80 crore in FY22. However, it has below unity current ratio of 0.44 times as on March 31, 2021 owing to higher outstanding deposits from retailers against provided freezer machines and low unencumbered cash and bank balance remained low at Rs.0.48 crore as on March 31, 2021. Further, cash flow from operations (CFO) of VEL declined to Rs.13.27 crore in FY21 from Rs.23 crore in FY20. Being a marketing arm of VIL, VEL's operating cycle is very short at 14 days.

VEL got sanctioned working capital term loans (WCTL) under Guaranteed Emergency Credit Line (GECL) scheme to the tune of Rs.2.63 crore (sanction in Q4FY21) at concessional rate of interest with tenor of four years (including one-year of moratorium period), which is expected to provide medium term liquidity cushion to VEL.

Analytical Approach: Standalone along-with factoring its strong operational and managerial linkages with Vadilal Industries Limited (VIL).

Applicable Criteria

CARE's Policy on Default Recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Wholesale Trading

About the Company

Ahmedabad-based Vadilal Enterprises Limited (VEL, CIN: L51100GJ1985PLC007995), which was incorporated in 1985, primarily acts as the marketing arm for selling and distribution of Vadilal brand Ice-cream, frozen desserts and processed food products manufactured by VIL in India. The company is promoted by the promoters of VIL. Both these companies operate under the common management platform.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	592.80	341.97
PBILDT	15.26	17.85
PAT	(0.83)	0.85
Overall gearing (times)	16.80	5.02
Interest coverage (times)	4.88	3.70

A: Audited

During Q1FY22 (Unaudited), VEL has registered TOI of Rs.139.70 crore with net loss of Rs.0.40 crore as compared to TOI of Rs.70.65 crore with net profit of Rs.0.99 crore in Q1FY21 (Unaudited).

Status of non-cooperation with previous CRA: CRISIL has conducted the review of ratings assigned to the fixed deposit instrument of the company on the basis of best available information under "Not cooperating" vide its press release dated December 24, 2020.
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure 2
Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure 3
Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	October, 2023	8.10	CARE BBB-; Stable
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	0.50	CARE BBB-; Stable / CARE A3

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	8.10	CARE BBB-; Stable	-	1)CARE BBB-; Negative (07-Jan-21)2)CARE BBB-; Negative (07-Jul-20)	1)CARE BBB (CWN) (27-Dec-19)2)CARE BBB (CWN) (26-Sep-19)3)CARE BBB (CE) (CWN) (22-Aug-19)4)CARE BBB+ (SO) (CWD) (10-Jun-19)	1)CARE BBB+ (SO); Stable (12-Sep-18)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Stable	-	1)CARE BBB-; Negative (07-Jan-21)2)CARE BBB-; Negative (07-Jul-20)	1)CARE BBB (CWN) (27-Dec-19)2)CARE BBB (CWN) (26-Sep-19)3)CARE BBB (CE) (CWN) (22-Aug-19)4)CARE BBB+ (SO) (CWD) (10-Jun-19)	1)CARE BBB+ (SO); Stable (12-Sep-18)
3	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	0.50	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Negative / CARE A3 (07-Jan-21)2)CARE BBB-; Negative / CARE A3 (07-Jul-20)	1)CARE BBB / CARE A3+ (CWN) (27-Dec-19)2)CARE BBB / CARE A3+ (CWN) (26-Sep-19)3)CARE BBB (CE) (CWN) / CARE A3+ (CE) (CWN) (22-Aug-19)4)CARE BBB+ (SO) / CARE A2 (SO) (CWD) (10-	1)CARE BBB+ (SO); Stable / CARE A2 (SO) (12-Sep-18)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
							Jun-19)	

Annexure-3: Detailed explanation of covenants of the rated facilities: Nil

Annexure-4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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