Vadilal Industries Limited

October 06, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	88.01 (Reduced from 95.75)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Short Term Bank Facilities	16.72	CARE A3 (A Three)	Reaffirmed
Total Bank Facilities	**104.73 (Rs. One Hundred Four Crore and Seventy-Three Lakhs Only)**		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vadilal Industries Limited (VIL) continue to derive strength from the vast experience of its promoters along with long-standing track record with established operations of VIL in ice-cream business and more than a century old presence of the 'Vadilal' brand in the domestic ice-cream market supported by its strong marketing and distribution network. The ratings also factors in its moderate scale of operations and profitability which declined in FY21 (FY refers to period from April 1 to March 31) but improved in Q1FY22 on y-o-y basis amidst Covid 19 disruptions with health growth in exports.

The above rating strengths are, however, tempered by moderate leverage with high capital-intensive nature of business, susceptibility of profitability to volatile raw material prices, seasonality associated with the business and high competition in the ice-cream segment from the organized as well as unorganized segments. 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 VIL from 'Negative' to 'Stable' takes into account better than envisaged performance in FY21 supported by its export business and improvement in its operating performance during Q1FY22 on y-o-y basis. It also factors in reduction in working capital limit utilization with better management of inventory and increase in creditors for peak season requirement.

Rating Sensitivities

Positive Factors

- Volume backed growth in the scale of operations with total operating income (TOI) of more than Rs 750 crore while sustaining PBILDT margin of more than 14%.
- Improvement in its current ratio beyond 1.20 times
- Timely availing long term debts to soar-up its liquidity and better management of inventory for peak season along with maintaining its TOL/TNW below 1.50 times.

Negative Factors

- Inability to avail targeted longer tenor debt and liquidate inventory, impacting its liquidity and debt servicing capability
- 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 reports for FY21
- Decline in the scale of operations with TOI falling below Rs.450 crore with decline in PBILDT margin below 10% on sustained basis.
- Higher than envisaged debt leading to deterioration in capital structure marked by overall gearing of greater than 1.50 times.

Detailed description of the key rating drivers

Key Rating Strengths

Better than envisaged operating performance in FY21, though, moderation in scale of operations and profitability as compared to FY20

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 cash losses in H1FY21 owing to coincidence of Covid-19 induced

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

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.
Overall performance of VIL moderated in FY21 over FY20 with TOI of VIL reduced by 22% Y-o-Y and remained at Rs.474.50 crore [Rs.606.72 crore in FY20] and PBILDT margin declined to 9.77% (FY20:14.21%).
Also, Covid 19 second wave had impacted the business in Q1FY22 but was for a shorter period resulting in improvement in performance on y-o-y basis but still lower than pre-Covid levels. During Q1FY22, VIL reported TOI of Rs.167.10 crore with PBILDT of Rs.28.99 crore compared to TOI of Rs.73.33 crore with operating loss of Rs.3.40 crore in Q1FY21 (UA). Compared to Q1FY20 it was still lower wherein it reported TOI of Rs.260.93 crore with PBILDT of Rs.67.75 crore. However, going forward with increase inoculation, and opening of economy would led to better demand from domestic market and this combined with continued growth in USA market, sales and profitability is expected to improve.

Experienced promoters

VIL was promoted by Mr.Vadilal Gandhi who started ice-cream business in 1907. Currently, the operations of VIL are managed by the third and fourth-generations of the family i.e. Mr. Rajesh Gandhi, Managing Director, Mr. Devanshu Gandhi, Managing Director and Mr. Kalpit Gandhi, Director and CFO (Son of Mr. Rajesh Gandhi). While Mr. Rajesh Gandhi looks after the overall operations of the company, Mr. Devanshu Gandhi looks after the sales, marketing and distribution functions. Apart from the finance function, Mr. Kalpit Gandhi looks after the plant operations on day to day 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 flavours and varieties in different forms like cups, candies, cones, kulfis, tubs, large packs, etc. Apart from ice-cream and frozen dessert, VIL also ventured into processed food business under the brand 'Quick Treat'. Further, the revenue stream is also moderately diversified geographically as VIL earns nearly majority of its domestic ice-cream revenue from the states of Gujarat, Rajasthan, Uttar Pradesh and Haryana; whereas balance comes from other states.

Strong marketing and distribution network

VIL [through Vadilal Enterprises Limited (VEL; rated CARE BBB-; Stable/ CARE A3)] 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. It 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. Furthermore, VIL mainly exports its processed food product, frozen dessert and ice-cream to 45 countries across four continents, the key markets include USA, South-East Asian and European countries. During past two years ended FY21, VIL registered healthy growth in export sales and as indicated by the management company is earning healthy revenue from export sales in current year i.e., FY22.

Key Rating Weaknesses

Moderate leverage with high capital-intensive nature of business

Ice-cream manufacturing and distribution industry is capital intensive in nature requiring regular investment in production facilities, innovative products in terms of flavours and packaging, as well as marketing assets like cold storage chain, deep freezers, refrigeration equipped delivery vehicles, push card, etc. During the four years ended FY21, VIL on consolidated basis had incurred capital expenditure of around Rs.140 crore which was funded through term debt of Rs.92.65 crore and balance through internal accruals. Also, the inherent seasonality associated with the ice-cream business whereby its main raw material (SMP) is largely available during the winter months leads to high working capital utilization as on balance sheet dates.
VIL's capital structure improved marked by its overall gearing of 0.87 times as on March 31, 2021 (1.14 times as on March 31, 2020) owing to lower working capital borrowings as bulk purchases of SMP were mainly done through increase in creditors and other loans from third party. The TOL/TNW remained at moderate 1.67 times which was in line with previous year.
Debt coverage indicators of VIL deteriorated over the previous year on the back of reduced PBILDT, and subsequently, GCA as marked by interest coverage ratio of 2.16 times [PY: 5.16 times] and total debt to GCA (TDGCA) of 8.20 times [PY:3.40 times] for the year ended March 31, 2021. However, same has improved in Q1FY22 on y-o-y basis with better profitability.

Susceptibility of profitability to volatile raw material prices such as Skimmed Milk Powder (SMP) due to its linkages with international markets

The major raw materials for manufacturing of ice-cream are SMP, milk, cream and nuts, which VIL procures from local dairies near its manufacturing units. It also procures palm oil for manufacturing frozen dessert. The prices of key raw materials have increased gradually over the years given the rising demand and constrained supply scenario. Also, each financial year during the period from November to January, the raw material prices are at their lowest due to dynamics of dairy industry; albeit during FY21 the raw material prices (mainly SMP) during the same period stood high on the back lower supply of milk in the industry which has resulted in higher cost of its raw material.

Furthermore, as against foreign exchange earnings of Rs.110.81 crore, VIL had foreign exchange outgo of only Rs.4.65 crore. Hence, the group is exposed to adverse fluctuation in foreign currency exchange rates. However, the company generally enters into forward covers which mitigate the forex risk to an extent.

Seasonality of demand as well as challenges arising from changing consumer tastes and preferences

The sales of VIL are normally concentrated over the summer months, reflecting the seasonality of the business. Hence, the working capital intensity is at its peak level in the last quarter of the financial year as it has to accumulate raw material inventory for meeting the demand for ice cream in the upcoming summer season. The business is also susceptible to changing tastes of consumers requiring investment in fixed assets leading to highly capital intensive operations.

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

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, VIL 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

VIL has adequate liquidity market by moderate utilization of working capital limits, healthy cash flow from operations and moderate cash accruals which adequately covers its debt repayment obligations. Average utilization of working capital facilities reduced to moderate level of around 65% during last twelve months ended in August, 2021 with no major adhoc availed for peak season requirement. In FY21, VIL's CFO improve to Rs.83.57 crore [PY: Rs.48.21 crore] mainly on the back of lower inventory holding and higher creditors as on March 31, 2021. Consequently, its unencumbered cash and bank balance increased to Rs.28.01 crore as on March 31, 2021 [Rs.12.50 crore as on March 31, 2020]. VIL is expected to generate GCA of Rs.55-70 crore in next two years as against low scheduled debt repayment obligation to the tune of Rs.20 to Rs.23 crore.

However, VIL's operating cycle elongated (i.e. from 72 days in FY20 to 86 days in FY21) due to decline in TOI with high inventory holding as on balance sheet date due to seasonality of business operations. The elongation in operating cycle was partially offset by increase in creditors period from 53 days in FY20 to 82 days in FY21.

Furthermore, VIL has availed working capital term loans (WCTL) under Guaranteed Emergency Credit Line (GECL) scheme to the tune of Rs.22.19 crore (Rs.4.05 crore sanctioned in Q4FY20 and rest 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 VIL.

Analytical approach: Consolidated

CARE has considered the consolidated financials of VIL for its rating approach due to its strong managerial and operational linkages with its subsidiaries as they are either the marketing arms for the products manufactured by VIL in various geographies outside India or in related diversification. List of entities getting consolidated in VIL is placed at **Annexure-5**.

Applicable Criteria

CARE's Policy on Default Recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch

[CARE's Policy on Default Recognition]
[Consolidation]
[Short Term Instruments]
[Manufacturing Companies]

About the Company
Ahmedabad-based Vadilal Industries Limited (VIL, CIN: L91110GJ1982PLC005169), which was incorporated in 1982, is engaged in manufacturing and distribution of ice-cream under the brand "Vadilal". The brand is named after Mr Vadilal Gandhi who started ice-cream business in 1907. VIL has two manufacturing facilities for ice-cream with combined capacity of 350,000 liters per day at Pundhra in Gujarat and Bareilly in Uttar Pradesh (UP) as on March 31, 2021. VIL also has one manufacturing facility for processed food with capacity of 46,200 MTPA at Dharampur in Gujarat. Further, VIL has also started exports of ice-cream mainly to US through its two wholly owned subsidiaries, Vadilal Industries (Inc), USA, Vadilal Industries Pty Ltd. VIL also provides foreign exchange consultancy services (mainly money changing service) as it is RBI approved authorized dealer. VIL is also engaged in cold storage business through its 98% partnership firm Vadilal Cold Storage. On a consolidated basis, VIL earns majority of its revenue from its ice-crème business, frozen desserts and processed foods along with very small revenue contribution from its foreign exchange consultancy business and cold storage rent income.
The promoters have also set-up another company under the name of Vadilal Enterprises Ltd (VEL; rated CARE BBB-; Stable / CARE A3) which acts as the marketing arm for selling and distribution of Vadilal brand Ice-cream, frozen desserts and processed food products in India.

Brief Financials (Rs. crore) – VIL (Consolidated)	FY20 (A)	FY21 (A)
Total operating income	606.72	474.50
PBILDT	86.22	46.36
PAT	41.38	4.63
Overall gearing (times)	41.38	4.63
Interest coverage (times)	5.16	2.16

A: Audited

During Q1FY22 (Unaudited), VIL has registered TOI of Rs.167.10 crore with net profit of Rs.12.70 crore as compared to TOI of Rs.73.33 crore with net loss of Rs.11.40 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-Cash Credit	-	-	-	-	48.13	CARE BBB-; Stable
Non-fund-based - LT-Bank Guarantees	-	-	-	-	5.30	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	7.18	CARE A3
Fund-based - LT-Term Loan	-	-	-	August, 2025	34.58	CARE BBB-; Stable
Fund-based - ST-EPC/PSC	-	-	-	-	9.54	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-Cash Credit	LT	48.13	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 (CWN) (22-Aug-19)4)CARE BBB+ (CWD) (10-Jun-19)	1)CARE BBB+; Stable (12-Sep-18)
2	Non-fund-based - LT-Bank Guarantees	LT	5.30	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 (CWN) (22-Aug-19)4)CARE BBB+ (CWD) (10-Jun-19)	1)CARE BBB+; Stable (12-Sep-18)
3	Non-fund-based - ST-Letter of credit	ST	7.18	CARE A3	-	1)CARE A3 (07-Jan-21)2)CARE A3 (07-Jul-20)	1)CARE A3+ (CWN) (27-Dec-19)2)CARE A3+ (CWN) (26-Sep-19)3)CARE A3+ (CWN) (22-Aug-19)4)CARE A2 (CWD) (10-Jun-19)	1)CARE A2 (12-Sep-18)
4	Fund-based - LT-Term Loan	LT	34.58	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 (CWN) (22-Aug-19)4)CARE BBB+ (CWD) (10-Jun-19)	1)CARE BBB+; Stable (12-Sep-18)
5	Fund-based - ST-EPC/PSC	ST	9.54	CARE A3	-	1)CARE A3 (07-Jan-21)2)CARE A3 (07-Jul-20)	1)CARE A3+ (CWN) (27-Dec-19)2)CARE A3+ (CWN) (26-Sep-19)3)CARE A3+ (CWN) (22-Aug-19)4)CARE A2 (CWD) (10-Jun-19)	1)CARE A2 (12-Sep-18)

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

<table>
<tr><th>Bank Facilities</th><th>Detailed explanation</th></tr>
<tr><td>A. Financial covenants</td><td>VIL to maintain followings:
<table>
<tr><th>Covenant</th><th>Threshold</th></tr>
<tr><td>Debt/EBITDA</td><td><=3.50</td></tr>
<tr><td>Debt/TNW</td><td><=2.25</td></tr>
<tr><td>Min. DSCR</td><td><=1.25</td></tr>
<tr><td>TOL/TNW</td><td><=3.00</td></tr>
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<tr><td></td><td></td></tr>
<tr><td>B. Non financial covenants</td><td></td></tr>
<tr><td></td><td>1. Effect any drastic change in their management setup.
2. Promoter’s share pledge to any Bank/ NBFC / Institutions</td></tr>
</table>

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	Fund-based - ST-EPC/PSC	Simple
4	Non-fund-based - LT-Bank Guarantees	Simple
5	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: List of entities getting consolidated in VIL

Sr. No.	Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by VIL as on March 31, 2021
1.	Vadilal Industries (USA) Inc.	Subsidiary	100.00
2.	Vadilal Industries Pty Ltd.*	Subsidiary	100.00
3.	Vadilal Gulf (FZE)#	Subsidiary	100.00
4.	Varood Industries Ltd.*	Subsidiary	100.00
5.	Vadilal Delight Ltd.*	Subsidiary	100.00
6.	Vadilal Cold Storage	Subsidiary	98.00

#VIL has not made any investment in the securities of Vadilal Gulf (FZE) at U.A.E. and it has closed its operations w.e.f. October 09, 2019; *Non operational entities

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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