Vadilal Industries Limited

January 07, 2021

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	95.75	**CARE BBB-; Negative (Triple B Minus; Outlook: Negative)**	**Reaffirmed**
Short-term Bank Facilities	16.72	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**112.47 (Rupees One Hundred Twelve crore and Forty Seven lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of 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, more than a century old presence of the 'Vadilal' brand in the domestic ice-cream market supported by its strong marketing and distribution network, growth in scale of operations during FY20 (refers to the period from April 1 to March 31) backed by expansion of geographical reach both in domestic and export markets along with regular introduction of new flavours/variants in its product basket.

The above rating strengths are, however, tempered by deterioration in its credit profile during H1FY21 upon cash losses reported by it on the back of coinciding of Covid-19 pandemic induced lockdown with its peak summer season sale of ice-cream in Q1FY21, capital intensive nature of business resulting in relatively high leverage, 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. CARE also takes note of the company availing the moratorium granted by its lenders as a Covid relief measure (as permitted by the Reserve Bank of India) for a period of six months from March 2020 to August 2020 for its debt obligations, including interest on working capital facilities.

Outlook: *Negative*

The 'Negative' outlook on the long-term rating of VIL reflects CARE's expectation of VIL incurring cash losses during FY21 amidst significant loss of revenue due to coincidence of Covid-19 induced lockdown with its peak sales season leading to pressure on its liquidity and higher reliance on external debt to fund the losses. The outlook may be revised to 'Stable' in case the company is able to turnaround its performance in the remaining part of FY21 and avail its targeted longer tenor debt to liquidate its ad-hoc working capital limits and thereby shore-up its liquidity; and exhibit good performance in its upcoming peak season of Q1FY22.

Rating Sensitivities

Positive factors

- Stabilization of its scale of operations at pre-COVID levels and subsequent growth through greater geographical diversification
- Availment of longer tenor debt and liquidation of existing inventory in FY21 leading to reduction in short term borrowing and improvement in working capital situation; along with maintaining its overall gearing below unity on a sustained basis
- PBILDT margin above 12% on a sustained basis by managing volatility associated with raw material prices along with improvement in its debt coverage indicators
- Improvement in its current ratio beyond 1.20 times

Negative factors

- Inability to avail targeted longer tenor debt and liquidate inventory, thereby further 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 the 'Basis for Disclaimer of Opinion' issued by its statutory auditors in their audit reports for the year-ended FY19 and FY20
- PBILDT margin below 10% on a sustained basis
- Any significant debt-funded capex which could result in weakening of its debt coverage indicators (deterioration of TD/GCA beyond 5x)

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

Detailed description of the key rating drivers

Key Rating Strengths

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 70%-75% 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

VIL [through Vadilal Enterprises Limited (VEL; rated CARE BBB-; Negative/ 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 FY20, 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., FY21 despite Covid-19 pandemic.

Volume backed consistent growth in scale of operations along with stable profitability during FY20

The total operating income (TOI) of VIL which registered a compounded annual growth rate (CAGR) of nearly 8% on a consolidated basis during last three years ended FY20, grew by 5% during FY20 on y-o-y basis alongwith largely stable PBILDT margin of 14.21%. The growth in sales was supported by geographical expansion coupled with continuous introduction of new products/flavors and hike in retail prices of some of its products due to significant increase in procurement cost of its key raw material, skimmed milk powder (SMP).

Although, the ice-cream consumption was severely affected in Q1FY21 which is the peak sales season for ice-cream manufacturers, the same has subsequently increased on the back of gradual ramp up of businesses post lifting of lockdown and gradual shift of consumers towards branded ice-cream keeping in mind the safety concerns on the back of recent outbreak of Covid-19 pandemic.

Key Rating Weaknesses

Moderation in financial profile and liquidity on the back of significant disruption of business operations during the peak season of Q1FY21 due to outbreak of Covid-19 and subsequent lockdown

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. During FY20, on consolidated basis VIL had funded ~Rs.70 crore of its capex largely through internal accruals and accordingly, to meet its raw material sourcing requirement during Q3FY20, it had availed ad-hoc limit of ~Rs.54 crore which was envisaged to be repaid from the cash flows of its peak summer season in Q1FY21. However, upon Covid-19 induced lockdown, VIL incurred cash loss during Q4FY20 and also lost large part of its peak season sales during Q1FY21 resulting into moderation in TOI by ~50% on y-o-y basis in H1FY21 and cash loss of Rs.7.67 crore during H1FY21. This has also impacted its liquidity and company had availed moratorium on servicing of its term loan & working capital limits (including ad-hoc limits) during March 2020 to August 2020, in line with the moratorium available under RBI's Covid-relief package.

In July 2020, post washout of its peak season sales, VIL had envisaged total requirement of Rs.100 crore of term loans to be essentially utilized to retire ad-hoc limit of ~Rs.54 crore and the balance was to be used to meet its expected cash losses during the year, working capital and debt servicing requirements post August 2020. As against this, during H1FY21, it has retired around Rs.20 crore of temporary working capital limits out of reduction in its inventory & debtors. Also, it has received sanction & disbursement of short term loans Rs.17.50 crore from two of its lenders. For the balance requirement, both VIL & VEL have requested their lenders to sanction around Rs.32.50 crore in aggregate under the 'Emergency Credit Line Guarantee Scheme (ECLGS)' whereby bankers of both companies are expected to sanction & disburse the limits shortly. Further, one of its lenders has also shown its intent to sanction and disburse Rs.25 crore of medium-term loan (against their working capital limit which were wound up in H1FY21). These term loans are expected to be repayable over a period of five years (including moratorium period of one year). Accordingly, VIL is expected to tide over its working capital requirement before end of FY21. However, timely availability of these term loans would be one of the critical rating monitorables.

Relatively high leverage due to high capital intensity of the 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 FY20, VIL on consolidated basis had incurred capital expenditure of around Rs.130 crore which was funded through term debt of Rs.84.43 crore and balance through internal accruals. During FY20 itself VIL on consolidated basis had incurred total capex of ~Rs.70 crore largely funded from its internal accruals which stood higher than its earlier estimates. 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. Consequently, despite improvement, the leverage of the company has continued to remain relatively high marked by an overall gearing of 1.14 times as on March 31, 2020 (1.18 times as on March 31, 2019). Further, its TOL/TNW continued to remain high at 1.72 times as on March 31, 2020. Also, its total debt/ GCA stood moderate at 3.40 years during FY20 (PY:3.15 years) on back of subdued performance in Q4FY20 and availment of ad-hoc working capital limits of ~Rs.54 crore to fund its raw material sourcing requirement. However, company has deferred its earlier envisaged capex plans for establishing new production facility in East India and cold storage facilities near its Bareilly plant in Uttar Pradesh and currently it has no major capex plans to be executed over medium term.

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 FY20 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 despite some savings from dip in prices of nuts and palm oil. The higher cost of raw material combined with loss of sales due to Covid-19 impacted its profitability especially during Q4FY20 and Q1FY21 thus resulting in cash losses during H1FY21.
Further, during FY20, as against foreign exchange earnings of Rs.75.40 crore, VIL had foreign exchange outgo of only Rs.10.39 crore. Hence, VIL is exposed to adverse fluctuation in foreign currency exchange rates. However, the company generally enters into forward cover to mitigate the forex risk to some 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.

Pending outcome of investigation on certain matters which has formed the basis for issuing of Disclaimer of opinion by its statutory auditors in their audit reports for FY19 and FY20

On account of various disputes between two brothers of the promoter group who were also on the Board of VIL, at various points in time during FY20 some of the independent directors of VIL had resigned from the Board citing hostile atmosphere in the board meetings which was followed by resignation of the company's statutory auditor along with issuance of disclaimer on their 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 for the last few quarters. Further, both promoter brothers are re-appointed as Managing

Directors of VIL. Also, an external law firm & CA firm are appointed to verify the remaining claims of the promoters whose outcome/reports are delayed due to disruptions caused by the outbreak of Covid-19 pandemic. Furthermore, new statutory auditor of the company for FY20 has also issued disclaimer of opinion in the audit report of FY20 pending outcome of the aforesaid investigation.

Liquidity: Stretched

VIL's liquidity stood stretched marked by almost full utilisation of its working capital limits and cash loss of Rs.7.67 crore reported during H1FY21. The company had availed ~Rs.54 crore of ad-hoc working capital limits to fund its raw material sourcing requirement in Q3FY20 which were originally scheduled to be squared up during Q1FY21; however, due to Covid-19 induced lockdown, VIL could not retire the same and availed moratorium on their repayment till August 2020 which was allowed by its lenders. The company had accumulated inventory around Rs.154 crore as on March 31, 2020 which has reduced to around Rs.117 crore as on September30, 2020 and it has also realized around Rs.12 crore from its debtors thus resulting in good cash flow from operations during H1FY21 in-spite of cash losses. Hence, in September 2020, the company repaid part of its working limits out of its cash flow from operations and tie-up of additional loans. With gradual lifting of lockdown and signs of pick-up in sales, the company is expected to be able to liquidate further inventory in H2FY21 which coupled with the expected sanction of loans under the ECLGS scheme is likely to shore up its liquidity.

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-3**.

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's methodology for manufacturing companies
Liquidity Analysis of Non-financial sector
Financial ratios – Non-Financial Sector
Rating Methodology: Consolidation

About the Company

Ahmedabad-based Vadilal Industries Limited (VIL), 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 as on March 31, 2020. VIL also diversified into the processed food segment in 1991 and has one manufacturing facility for processed food with capacity of 46,200 MTPA at Dharampur in Gujarat. 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, VIL also ventured into processed food business under the brand 'Quick Treat' and product portfolio includes frozen vegetables, ready-to-eat frozen snacks, Indian bread and curries, paneer and flavored milk. On a standalone basis, during FY19, VIL earned around 90% of gross sales from sale of Ice-cream and remaining 10% from processed food segment. Processed foods are mainly exported (nearly 75%).

Furthermore, VIL has also started export of ice-cream mainly to USA and Australia through its two wholly owned subsidiary, Vadial Industries (Inc), USA and Vadilal Industries Pty Ltd. VIL also provides foreign exchange consultancy services (mainly money changing service) as it is an RBI approved authorized dealer.

(Rs. Crore)

Brief Financials -VIL (Consolidated)	FY19 (A)	FY20 (A)
Total operating income	576.69	606.72
PBILDT	82.22	86.22
PAT	33.36	41.38
Overall gearing (times)	1.18	1.14
PBILDT Interest coverage (times)	5.84	5.16

A: Audited

Further, as per the published consolidated results for H1FY21, VIL earned a total operating income of Rs.203.65 crore with net loss of Rs.10.72 crore as against total operating income of Rs. 410.67 crore with a PAT of Rs. 60.48 crore during H1FY20.

Status of non-cooperation with previous CRA: Rating assigned by CRISIL to the fixed deposit instrument of the company continued to remain under 'Issuer not cooperating' category vide its press release dated December 24, 2020 in the absence of requisite information.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure - 1: Details of Facilities / Instruments

Name of the Instrument/ Bank Facilities	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-; Negative
Non-fund-based - LT-Bank Guarantees	-	-	-	5.30	CARE BBB-; Negative
Non-fund-based - ST-Letter of credit	-	-	-	7.18	CARE A3
Fund-based - LT-Term Loan	-	-	August 2025	42.32	CARE BBB-; Negative
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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	48.13	CARE BBB-; Negative	1)CARE BBB-; Negative (07-Jul-20)	1)CARE BBB (Under Credit watch with Negative Implications) (27-Dec-19) 2)CARE BBB (Under Credit watch with Negative Implications) (26-Sep-19) 3)CARE BBB (Under Credit watch with Negative Implications) (22-Aug-19) 4)CARE BBB+ (Under Credit watch with Developing Implications) (10-Jun-19)	1)CARE BBB+; Stable (12-Sep-18)	1)CARE BBB+; Stable (28-Aug-17)
2.	Non-fund-based - LT-Bank Guarantees	LT	5.30	CARE BBB-; Negative	1)CARE BBB-; Negative (07-Jul-20)	1)CARE BBB (Under Credit watch with Negative Implications) (27-Dec-19)	1)CARE BBB+; Stable (12-Sep-18)	1)CARE BBB+; Stable (28-Aug-17)

						2)CARE BBB (Under Credit watch with Negative Implications) (26-Sep-19) 3)CARE BBB (Under Credit watch with Negative Implications) (22-Aug-19) 4)CARE BBB+ (Under Credit watch with Developing Implications) (10-Jun-19)		
3.	Non-fund-based - ST-Letter of credit	ST	7.18	CARE A3	1)CARE A3 (07-Jul-20)	1)CARE A3+ (Under Credit watch with Negative Implications) (27-Dec-19) 2)CARE A3+ (Under Credit watch with Negative Implications) (26-Sep-19) 3)CARE A3+ (Under Credit watch with Negative Implications) (22-Aug-19) 4)CARE A2 (Under Credit watch with Developing Implications) (10-Jun-19)	1)CARE A2 (12-Sep-18)	1)CARE A2 (28-Aug-17)
4.	Fund-based - LT-Term Loan	LT	42.32	CARE BBB-; Negative	1)CARE BBB-; Negative (07-Jul-20)	1)CARE BBB (Under Credit watch with Negative Implications) (27-Dec-19) 2)CARE BBB (Under Credit watch with Negative Implications) (26-Sep-19) 3)CARE BBB (Under Credit watch with Negative Implications)	1)CARE BBB+; Stable (12-Sep-18)	1)CARE BBB+; Stable (28-Aug-17)

						(22-Aug-19) 4)CARE BBB+ (Under Credit watch with Developing Implications) (10-Jun-19)		
5.	Fund-based - ST-EPC/PSC	ST	9.54	CARE A3	1)CARE A3 (07-Jul-20)	1)CARE A3+ (Under Credit watch with Negative Implications) (27-Dec-19) 2)CARE A3+ (Under Credit watch with Negative Implications) (26-Sep-19) 3)CARE A3+ (Under Credit watch with Negative Implications) (22-Aug-19) 4)CARE A2 (Under Credit watch with Developing Implications) (10-Jun-19)	1)CARE A2 (12-Sep-18)	1)CARE A2 (28-Aug-17)

Annexure-3: List of entities getting consolidated in VIL

Sr. No.	Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by VIL as on March 31, 2020
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

 # incorporated during FY20

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

Sr. No.	Name of the 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

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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About CARE Ratings:
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