Vadilal Industries Limited

October 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	97.55	CARE BBB+; Stable	Revised from CARE BBB; Stable
Short Term Bank Facilities	7.18	CARE A2	Revised from CARE A3+

Details of facilities in Annexure -1

Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Vadilal Industries Limited (VIL) takes into account significant volume driven growth in its scale of operations supported by deeper geographical penetration which also resulted in improvement in profitability and debt coverage indicators in FY23 (Audited; FY refers to period from April 01 to March 31). The ratings also take cognizance of sustained performance of VIL in Q1FY24 (Provisional).

The ratings, further, continue to derive strength from the vast experience of its promoters, 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 and adequate liquidity.

The above rating strengths are, however, tempered by its 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 organised as well as unorganised segments. The ratings are also constrained by pending outcome of investigation on certain matters which has formed the basis for auditor's qualified opinion.

Rating Sensitivities: Factors likely to lead to rating actions

Positive Factors

- Volume-backed growth in the scale of operations with total operating income (TOI) of over Rs.1500 crore while sustaining PBILDT margin of more than 15%.
- Improvement in total debt / PBILDT to less than 1x on sustained basis.
- Improving TOL/TNW to below 1 times.

Negative Factors

- 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 FY23
- Decline in scale of operations with TOI falling below Rs.1000 crore and decline in PBILDT margin below 12% on sustained basis.
- Any large sized debt funded capex or incremental working capital requirement resulting in deterioration in capital structure with overall gearing of more than 1.20 times.

Analytical Approach: Consolidated

CARE has considered the consolidated financials of VIL along with its subsidiaries due to strong managerial and operational linkages as they are either the marketing arms for the products manufactured by VIL in various geographies outside India or have presence in related diversification. List of entities getting consolidated in VIL is placed at **Annexure-6**.

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings' opinion that the entity will continue to benefit from its established presence in the ice-cream segment with strong brand name and distribution network which shall enable the company to sustain its comfortable financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key Rating Strengths

Significant growth in scale of operations along with improvement in profitability in FY23 as well as Q1FY24

VIL's TOI, on consolidated basis, grew significantly by 52% Y-o-Y to Rs.1,066 crore in FY23 due to rise in domestic consumer demand on the back of increasing marketing efforts leading to higher sales volume coupled with increase in price realization. VIL also experienced moderate growth in demand in USA marked by ~8% Y-o-Y growth in TOI of its US subsidiary Vadilal

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Industries (USA), Inc., (VIUI) in FY23. During Q1FY24 also, VIL's scale of operations sustained, registering ~4% Y-o-Y increase in TOI to Rs.412.56 crore as against Rs.394.86 crore in Q1FY23.

VIL's PBILDT margin also improved by 138 bps Y-o-Y and remained healthy at 15.99% in FY23 [PY: 14.61%] with benefit derived from growth in scale of operations. In tandem, PAT margin also increased by 266 bps Y-o-Y to 9.04% in FY23 [PY: 6.38%]. PBILDT margin and PAT margin of the company increased substantially by 569 bps and 469 bps respectively on Y-o-Y basis and remained healthy at 25.66% and 17.21% respectively in Q1FY24 owing to better cost optimization in line with regularization of freight cost as well as benefit from operating leverage.

Comfortable capital structure and improvement in debt coverage indicators

VIL's overall gearing ratio remained comfortable at 0.91 times as on March 31, 2023 as against 0.84 times as on March 31, 2022. Total outstanding debt was higher as on FY23 end owing to finance lease availed towards warehouse and delivery truck on lease rental basis in USA by VIUI as well as increase in working capital borrowings to support growth in scale of operations. Net worth of the company was healthy at Rs.319.70 crore as on March 31, 2023. In FY23, VIL had planned a debt funded expansion project at its Pundhra and Bareily manufacturing facilities with estimated cost of Rs.60 crore, which is now at verge of completion and funded through term loan of Rs.45 crore and balance through internal accruals. Furthermore, over the last couple of years, company has relied on medium to short term unsecured finance for meeting working capital requirement towards inventory build-up before peak season. With no major capex plan going forward, capital structure of VIL is expected to remain comfortable below unity.

Debt coverage indicators of VIL improved over the previous year on the back of improved profitability and remained comfortable as marked by interest coverage ratio of 10.92 times [PY: 5.28 times] and total debt to GCA ratio of 2.26 times [PY:2.56 times] in FY23.

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 generation 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 domestic sales, marketing, and distribution functions. Apart from the finance function, Mr. Kalpit Gandhi looks after the plant operations on day-to-day basis as well as export functions.

Long standing track record with a 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 Vadilal brand Ice cream and Processed Food Products are being served across pan India except Southern States. 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 A2)] has marketing presence in 28 states of India with the support of 70 C&F agents, over 1,500 distributors and 300 distribution vehicles. It also offers a wide range of ice-cream and frozen desserts through nearly 100 SKUs (Stock Keeping Units) in leading modern trade outlets like Reliance Fresh, More, Hyper City, D-Mart, Food Bazaar and Star Bazaar, etc. There are 65 'happinezz' and 'Hangout' parlours which are given by the Vadilal group on franchisee basis to third parties.

Furthermore, VIL exports its processed food product, frozen dessert, and ice-cream to 45 countries across four continents with key markets including USA, South-East Asian and European countries.

Key Rating Weaknesses

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 from FY19 to FY23

On account of various disputes between two brothers of the promoter group who were also on the Board of VIL and VEL, 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 also got re-appointed as Managing Directors of VIL.

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 had already 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 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 was raised by a promoter director in FY21 in VEL, 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 was allegedly done without following the due process. This matter were also handed over to same independent CA firm and law firm to investigate and report of the same is still pending.
Moreover, one of the promoter group (Virendra Gandhi and family) had filed a petition in FY18 against the Vadilal group in National Company Law Tribunal (NCLT, Ahmedabad Bench) for alleged oppression and mismanagement. The said matter is currently subjudice and no decision has been arrived yet. Resolution of the said allegation as well as NCLT matter will remain key rating monitorable.

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. 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 in most of the years. VIL's operating cycle elongated from 71 days in FY22 to 81 days in FY23 with reduction in creditors days. However, gross current asset days of VIL improved marginally and continued to remain elongated at 127 days in FY23 [PY: 134 days]. Due to nature of business, it is expected to remain elongated going forward.

Susceptibility of profitability to volatile raw material prices and foreign exchange fluctuation

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 normally lower due to dynamics of dairy industry which also results in inventory procurement during this period for the upcoming summer season.
Furthermore, as against foreign exchange earnings of Rs.132.88 crore [PY: Rs.109.37 crore], VIL's foreign exchange outgo generally remains low at ~Rs.9-10 crore. In absence of any natural hedge, the group is exposed to adverse fluctuation in foreign currency exchange rates. However, the group generally enters in forward cover which mitigates the forex risk. During FY23, VIL reported forex loss of Rs.0.13 crore.

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.

Liquidity: Adequate

VIL has adequate liquidity marked by low utilization of working capital limits, moderate cash flow from operations, and healthy cash accruals envisaged which is expected to adequately cover its debt repayment obligations.
Average utilization of working capital facilities remained low at ~32% during last twelve months ended in June, 2023 due to seasonality associated with SMP procurement. The company had also taken short term ICDs to fund its WC capital requirement which stood at Rs.39.45 crore as on March 31, 2023 [PY: Rs.34.39 crore]. However, the same was entirely repaid in the current year.
Furthermore, in FY23, VIL's CFO increased in tandem with operating profit from Rs.21.47 crore in FY22 to Rs.34.98 crore in FY23. Also, unencumbered cash and bank balance with the company remained at Rs.31.77 crore as on March 31, 2023 [PY:

Rs.45.65 crore]. As on August 31, 2023, VIL had liquid investments of ~Rs.88 crore on the back of profit generated in current year and release of funds from working capital. VIL is expected to generate GCA of ~Rs.125-150 crore in FY24-FY26 as against low scheduled debt repayment obligation to the tune of ~Rs.25-42 crore.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks:

Risk Factors	Compliance and action by the company
Environmental	1. Power consumption The same is mitigated by increasing usage of renewable source of energy. 2. Plastic packaging material It is mitigated by overall use of virgin plastic material, which is designed for recycling. 3. Use of water The same is mitigated by conserving, limiting usage, facilitating re-use.
Social	1. Ingredient sustainability The same is mitigated by the company working closely with farmers to educate / build sustainability practices.
Governance	1. Though VIL is the public entity, promoters of the company have the majority shareholding. VIL's board of directors has six directors which include two independent directors, out of which one is a woman director. 2. Corporate governance related litigations are on-going As per above point

Applicable Criteria

[Policy on default recognition]
[Consolidation]
[Financial Ratios – Non financial Sector]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Credit Watch]
[Short Term Instruments]
[Manufacturing Companies]
[Policy on Withdrawal of Ratings]

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Dairy Products

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, 2023. 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 and Australia through its two wholly owned subsidiaries, Vadilal Industries (Inc) and USA, Vadilal Industries Pty Ltd. respectively. 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 A2) 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)	FY22 (A)	FY23 (A)	Q1FY24 (UA)
Total operating income	701.15	1065.77	412.56
PBILDT	102.43	170.36	105.86
PAT	44.70	96.30	71.01
Overall gearing (times)	0.84	0.91	NA
Interest coverage (times)	5.28	10.92	19.04

A: Audited; UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not applicable
Rating history for 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: Annexure-4
Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	51.77	CARE BBB+; Stable
Fund-based - LT-Term Loan	-	-	-	31-12-2027	40.48	CARE BBB+; Stable
Non-fund-based - LT-Bank Guarantee	-	-	-	-	5.30	CARE BBB+; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	7.18	CARE A2

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	51.77	CARE BBB+; Stable	-	1)CARE BBB; Stable (27-Sep-22)	1)CARE BBB-; Stable (06-Oct-21)	1)CARE BBB-; Negative (07-Jan-21) 2)CARE BBB-; Negative (07-Jul-20)
2	Non-fund-based - LT-Bank Guarantee	LT	5.30	CARE BBB+; Stable	-	1)CARE BBB; Stable (27-Sep-22)	1)CARE BBB-; Stable (06-Oct-21)	1)CARE BBB-; Negative (07-Jan-21) 2)CARE BBB-; Negative (07-Jul-20)
3	Non-fund-based - ST-Letter of credit	ST	7.18	CARE A2	-	1)CARE A3+ (27-Sep-22)	1)CARE A3 (06-Oct-21)	1)CARE A3 (07-Jan-21) 2)CARE A3 (07-Jul-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
4	Fund-based - LT-Term Loan	LT	40.48	CARE BBB+; Stable	-	1)CARE BBB; Stable (27-Sep-22)	1)CARE BBB-; Stable (06-Oct-21)	1)CARE BBB-; Negative (07-Jan-21) 2)CARE BBB-; Negative (07-Jul-20)
5	Fund-based - ST-EPC/PSC	ST	-	-	-	1)Withdrawn (27-Sep-22)	1)CARE A3 (06-Oct-21)	1)CARE A3 (07-Jan-21) 2)CARE A3 (07-Jul-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities getting consolidated in VIL

Sr. No.	Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by VIL as on March 31, 2023
1.	Vadilal Industries (USA) Inc., USA	Subsidiary	100.00
2.	Vadilal Industries Pty Ltd., Australia	Subsidiary	100.00
3.	Varood Industries Ltd., India*	Subsidiary	100.00
4.	Vadilal Delight Ltd., India*	Subsidiary	100.00
5.	Vadilal Cold Storage, India	Subsidiary	98.00
6.	Krishna Krupa Corporation #	Step down subsidiary	100.00

100% subsidiary of VIUI; * Non operational entity

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

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About us:
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