Vadilal Enterprises Limited

September 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	0.50	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)
Long Term Bank Facilities	-	-	Withdrawn
Total Bank Facilities	**10.50 (₹ Ten Crore and Fifty Lakhs Only)**		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Vadilal Enterprises Limited (VEL) take into account significant growth in its scale of operations and improvement in its debt coverage indicators in FY22 (Audited; FY refers to period from April 01 to March 31) and Q1FY23 (Unaudited) coupled with improvement in overall financial risk profile of Vadilal Industries Limited (VIL); flagship company of Vadilal group.

The ratings, further, continue to derives strength from 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 VIL due to VEL's exclusive rights for selling and distribution of ice-cream and other products manufactured by VIL in the domestic market as well as adequate liquidity.

The above strengths are, however, tempered on account of very thin profitability margins of VEL due to the trading nature of its operations, small networth base and high competition in the ice-cream segment from the organized as well as un-organized players. 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

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in profile of VIL
- Improvement in leverage with significant increase in net worth base resulting in overall gearing below 1 times on sustained basis
- Improvement in profitability margins marked by PAT margin above 1%

Negative factors – Factors that could lead to negative rating action/downgrade:

- 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 FY22
- Deterioration in debt coverage indicators with interest coverage of less than 3 times and TDGCA of more than 2 times

Detailed description of the key rating drivers

Key Rating Strengths

Growth in scale of operations and improvement in debt coverage indicators in FY22 and Q1FY23

VEL acts as the marketing arm of VIL for selling and distribution of Vadilal brand Ice-cream, frozen desserts and processed food products manufactured by VIL in India. In FY22, VEL's TOI grew significantly by 61% Y-o-Y and remained at Rs.547.37 crore due to substantially higher consumer demand on the back improved consumer sentiment. Going forward, with increased demand from domestic market and lower Covid 19 disruptions, revenue is expected to grow significantly in FY23 which is reflecting by volume-backed healthy growth in TOI of ~198% in Q1FY23 (UA) over Q1FY22 (UA) which remained at Rs.416.94 crore [Q1FY21 (UA): Rs.295.74 crore; exhibiting ~41% growth as compared to pre-covid level].

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

The debt coverage indicators of VEL improved over the previous year on the back of decrease in total debt, and subsequently, interest cost and continued to remain comfortable as marked by interest coverage ratio of 5.62 times [PY: 3.30 times] and TDGCA of 0.43 times [PY: 0.90 times] for the year ended on March 31, 2022.

Improvement in overall financial risk profile of VIL

The overall financial risk profile of VIL improved as marked by significant growth in its scale of operations and consistent improvement in profitability in FY22 (A) and Q1FY23 (UA). In FY22, it reported TOI of Rs.701.15 crore with GCA of Rs.72.49 crore. Also in Q1FY23 it reported TOI of Rs.394.86 crore with GCA of Rs.57 crore. Also, capital structure and debt coverage indicators had shown improvement in FY22 and Q1FY23 on y-o-y basis.

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, Chairman, looks after the overall operations of the company, Mr. Devanshu Gandhi, Director, looks after the sales, marketing and 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. VIL selling price to VEL is after considering all expenses including marketing and distribution expenses incurred by VEL and VIL also supports VEL's cash flow though extended credit period. 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 Vadilal brand Ice cream and Processed Food Products are being served across the pan India except Southern States. 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. During FY22, it has also opened a Vadilal Dessert Café in Ahmedabad, however, nothing has been planned yet for expansion of the same in other regions.

Strong marketing and distribution network

VEL has marketing presence in 23 states of India with the support of 70 C&F agents, over 1,500 distributors, more than 70,000 retailers and 300 distribution vehicles. VEL 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 35 'happinezz' and 'Hangout' parlours which are given by the Vadilal group on franchisee basis to third parties.

Key Rating Weaknesses

Thin profitability margin

VEL's profitability remain thin due to low value-added trading nature of its operations as marked by PBILDT margin of 2.23% exhibiting 246 bps Y-o-Y decrease owing to higher cost price from VIL. VEL has strong operational and financial linkage with VEL and hence billing by VIL factors in the expenses incurred by VEL including marketing and distribution costs. VIL support VEL in terms of discretionary selling prices such that VEL maintained PBILDT margin of around 2-3%. As a result, the company has reported thin PAT margin of 0.40% in FY22. Profitability is expected to remain thin going forward despite of envisaged growth in TOI with expected increase in advertisement expenses. Overall GCA in last three years ended FY22 remained around Rs.13-14 crore despite fluctuation in TOI due to discretionary selling pricing by VIL.

Small networth base

As on March 31, 2022, overall gearing of VEL improved over the previous year due to reduction in total debt on the back of scheduled repayment of term loans coupled with lower working capital borrowings and it remained moderate at 1.38 times [PY:5.02 times]. However, tangible net worth of the company continued to remain small at Rs.4.35 crore as on March 31, 2022.

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. During COVID-19, many small un-organised ice-cream players are being closed, and accordingly, competition decreased for organized sector to certain extent.

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 FY22

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 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 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 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 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 alleged to be done without following the due process of the company and which were also handed over to same independent CA firm and law firm to investigate, the 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 under preview of NCLT and no decision has been arrived yet. Resolution of the said allegation as well as NCLT matter will remain key rating monitorable.

Liquidity: Adequate

VEL's liquidity stood adequate considering the linkage with VIL and healthy GCA levels compared to its low repayment obligations. However, on standalone basis it has below unity current ratio of 0.48 times as on March 31, 2022 due to higher creditors from VIL, though CFO of the company increased to double at Rs.24.73 crore in FY22 owing to better realization from debtors coupled with higher credit period availed from the creditors (mainly VIL). Consequently, unencumbered cash and bank balance with the company increased to Rs.5.04 crore as on March 31, 2022 [PY: Rs.0.48 crore]. VEL is expected to generate cash accruals of Rs.14-18 crore against scheduled debt repayment obligation of Rs.1.00-2.75 crore in FY23-FY25 period. Average fund based working capital utilization remained at negligible in part 12 months ended in July, 2022.

Analytical Approach: Standalone along-with factoring its strong operational and managerial linkages with VIL.

Applicable Criteria

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
Policy on Withdrawal of Ratings

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)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	340.07	547.37	416.94
PBILDT	15.96	12.20	23.94
PAT	0.85	2.20	15.61
Overall gearing (times)	5.02	1.38	NA
Interest coverage (times)	3.30	5.62	68.40

A: Audited; UA: Unaudited; NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	Fully repaid	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	-	10.00	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	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 (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE BBB-; Stable (06-Oct-21)	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)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (06-Oct-21)	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)
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	0.50	CARE BBB; Stable /	-	1)CARE BBB-; Stable /	1)CARE BBB-; Negative /	1)CARE BBB / CARE A3+ (CWN)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	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	Date(s) and Rating(s) assigned in 2019-2020
				CARE A3+		CARE A3 (06-Oct-21)	CARE A3 (07-Jan-21) 2)CARE BBB-; Negative / CARE A3 (07-Jul-20)	(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-Jun-19)

* Long term / Short term

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 Guarantee	Simple

Annexure-5: Bank lender details for this company

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

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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