# Vadilal Industries Limited

September 27, 2022

## Ratings

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 97.55 (Enhanced from 88.01) | CARE BBB; Stable (Triple B; Outlook: Stable) | Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable) |
| Short Term Bank Facilities | 7.18 | CARE A3+ (A Three Plus) | Revised from CARE A3 (A Three) |
| Short Term Bank Facilities | - | - | Withdrawn^ |
| **Total Bank Facilities** | **104.73 (₹ One Hundred Four Crore and Seventy-Three Lakhs Only)** | | |

Details of facilities in Annexure -1; ^Due to reclassification of bank facilities

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of Vadilal Industries Limited (VIL) take into account significant growth in its scale of operations and improvement in profitability in FY22 (Audited; FY refers to period from April 01 to March 31) and Q1FY23 (Unaudited) resulting in improvement in capital structure and debt coverage indicators. The revision in ratings also factor in growth in export business including USA in last 2-3 years which is expected to reduce impact of seasonality in the business.

The ratings, further, continue to derives 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 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 organized as well as unorganized 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**

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

- Volume-backed growth in the scale of operations with TOI of over 25% 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 1.20 times.

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

- 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 FY22
- Decline in the scale of operations with TOI falling below Rs.600 crore with decline in PBILDT margin below 11% on sustained basis.
- Large sized debt funded capex
- Deterioration in capital structure with overall gearing of more than 1.15 times.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Significant growth in scale of operations with improvement in profitability in FY22 and Q1FY23***

In FY22, VIL's TOI grew significantly by ~49% Y-o-Y to Rs.701.15 crore on account of substantial increase in consumer demand from domestic market backed by improved post-covid consumer sentiment as well continued growth from export market with increased penetration. Going forward, with increased demand from domestic market and lower Covid 19 disruptions, revenue is expected to grow significantly in FY23 which is reflected by volume-backed healthy growth in TOI of ~136% in Q1FY23 (UA) over Q1FY22 (UA) which remained at Rs.394.86 crore [Q1FY21 (UA): Rs.260.93 crore; exhibiting ~51% 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

VIL reported substantial growth in exports market of USA through its wholly-owned subsidiary (i.e. VIUI) as marked by ~30% Y-o-Y growth in its TOI in FY22 over FY21. Company envisages exports to grow by at least 10%-20% with better penetration in medium term supporting overall growth.
PBILDT margin of the company increased significantly by 577 bps over FY21 which was impacted by Covid-induced significant decline in TOI as against higher overheads. Also, better then envisaged post-covid recovery, cost control measures implemented (lower employee costs) and growth in exports also contributes in better profitability in FY22. As a result, PBILDT margin were better than pre-covid level of 13.94% in FY20. Consequent to improved PBILDT margin, PAT margin of the company also improved increased significantly by 539 bps Y-o-Y to 6.38% in FY22. As a result, GCA of VIL increased significantly by ~277% and exceed pre-covid level to Rs.72.49 crore in FY22 [FY21: Rs.19.25 crore; FY20: Rs.59.02 crore]. In Q1FY23, VIL reported PBILDT margin of 20%.

***Improvement in capital structure and debt coverage indicators***
VIL's overall gearing ratio has improved and remained comfortable at 0.84 times as on March 31, 2022 owing to healthy accretion of profits into reserves which led to augmentation of tangible net worth to moderate level of Rs.221.54 crore as on March 31, 2022. TOL/TNW of the company improved marginally and continued to remain moderate at 1.42 times as on March 31, 2022. The company had only made contributions towards maintenance capex and it had not undertaken any major expansion in last couple of years due to adverse economic scenario due to Covid-19 disruptions, however in FY23, it is planning to undertake a debt funded expansion project at its Pundhra and Bareily manufacturing facilities with estimated cost of Rs.60 crore to be funded by proposed term loan of Rs.45 crore and balance through internal accruals. Considering the same, overall gearing ratio is expected to remain 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 5.28 times and total debt to GCA ratio of 2.56 times for the year ended March 31, 2022. Same is expected to continue in near term.
Timely tie-up of debt for planned capex is a key credit monitorable to fuel is growth. In last two years, company had relied on medium to short term unsecured finance for meeting working capital requirement towards inventory build-up before peak season.

***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 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 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 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 70 C&F agents, over 1,500 distributors, more than 70,000 retailers 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 35 '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, the key markets include USA, South-East Asian and European countries. During past three years ended FY22, VIL registered healthy growth in export sales which forms ~26% of net sales in FY22.

**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 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.

***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 improved marginally to 71 days in FY22 with reduction in collection and inventory days, however, it remained still elongated as compared to pre-covid level of 58 days in FY20.

***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 normally lower due to dynamics of dairy industry.

Furthermore, as against foreign exchange earnings of Rs.109.37 crore, VIL had foreign exchange outgo of only Rs.9.19 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. During COVID-19, many small un-organised ice-cream players are being closed, and accordingly, competition decreased for organized sector to certain extent.

**Liquidity: Adequate**

VIL's liquidity has improved on the back of healthy cash accruals and remained adequate marked by low utilization of working capital limits, improved liquidity ratios, moderate cash flow from operations and healthy cash accruals which adequately covers its debt repayment obligations. VIL is expected to generate GCA of Rs.80-120 crore in next two years as against low scheduled debt repayment obligation to the tune of Rs.25 to Rs.35 crore (including FD repayments). VIL had also prepaid part of its term loan in Q1FY23 of around Rs.17 crore out of the healthy cash accruals in Q1FY23. Furthermore, VIL's current ratio has improved to 1.26 times as on March 31, 2022.

Average utilization of working capital facilities reduced at comfortable level of ~25% during last twelve months ended in July, 2022 as against ~65% utilization during trailing twelve months ended in June, 2021. The peak utilization remained at 70% as company had taken short term ICDs to fund its WC capital requirement which stood at Rs.34.39 crore as on March 31, 2022. In FY22, VIL's CFO reduced on account of increased working capital requirement in tandem with growing scale of operations, though it remained moderate at Rs.21.47 crore while unencumbered cash and bank balance increased to Rs.45.65 crore as on March 31, 2022 with improved profitability.

**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-6**.

**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**

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, 2022. 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 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) | FY21 (A) | FY22 (A) | Q1FY23 (UA) |
|---|---|---|---|
| Total operating income | 469.65 | 701.15 | 394.86 |
| PBILDT | 41.51 | 102.43 | 78.84 |
| PAT | 4.63 | 44.70 | 49.46 |
| Overall gearing (times) | 0.90 | 0.84 | NA |
| Interest coverage (times) | 1.94 | 5.28 | 17.10 |

*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-Cash Credit | - | - | - | - | 51.77 | CARE BBB; Stable |
| Non-fund-based - LT-Bank Guarantee | - | - | - | - | 5.30 | CARE BBB; Stable |
| Non-fund-based - ST-Letter of credit | - | - | - | - | 7.18 | CARE A3+ |
| Fund-based - LT-Term Loan | - | - | - | 31/12/2027 | 40.48 | CARE BBB; Stable |
| Fund-based - ST-EPC/PSC | - | - | - | - | 0.00 | Withdrawn |

**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-Cash Credit | LT | 51.77 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (06-Oct-21) | 1)CARE BBB-; Negative (07-Jan-21)<br>2)CARE BBB-; Negative (07-Jul-20) | 1)CARE BBB (CWN) (27-Dec-19)<br>2)CARE BBB (CWN) (26-Sep-19)<br>3)CARE BBB (CWN) (22-Aug-19)<br>4)CARE BBB+ (CWD) (10-Jun-19) |
| 2 | Non-fund-based - LT-Bank Guarantee | LT | 5.30 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (06-Oct-21) | 1)CARE BBB-; Negative (07-Jan-21)<br>2)CARE BBB-; Negative (07-Jul-20) | 1)CARE BBB (CWN) (27-Dec-19)<br>2)CARE BBB (CWN) (26-Sep-19)<br>3)CARE BBB (CWN) (22-Aug-19)<br>4)CARE BBB+ (CWD) (10-Jun-19) |
| 3 | Non-fund-based - ST-Letter of credit | ST | 7.18 | CARE A3+ | - | 1)CARE A3 (06-Oct-21) | 1)CARE A3 (07-Jan-21)<br>2)CARE A3 (07-Jul-20) | 1)CARE A3+ (CWN) (27-Dec-19)<br>2)CARE A3+ (CWN) (26-Sep-19)<br>3)CARE A3+ (CWN) (22-Aug-19)<br>4)CARE A2 (CWD) (10-Jun-19) |
| 4 | Fund-based - LT-Term Loan | LT | 40.48 | CARE BBB; Stable | - | 1)CARE BBB-; Stable (06-Oct-21) | 1)CARE BBB-; Negative (07-Jan-21) | 1)CARE BBB (CWN) (27-Dec-19)<br>2)CARE BBB (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 |
| | | | | | | | 2)CARE BBB-; Negative (07-Jul-20) | (26-Sep-19) 3)CARE BBB (CWN) (22-Aug-19) 4)CARE BBB+ (CWD) (10-Jun-19) |
| 5 | Fund-based - ST-EPC/PSC | ST | - | - | - | 1)CARE A3 (06-Oct-21) | 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) |

* Long term / Short term

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

| Bank Facilities | Detailed explanation |
|---|---|
| **A. Financial covenants** | **VIL to maintain followings:** |
| | |
| **B. Non financial covenants** | **-** |

| Covenant | Threshold |
|---|---|
| Debt/EBITDA | <=3.50 |
| Debt/TNW | <=2.25 |
| Min. DSCR | <=1.25 |
| TOL/TNW | <=3.00 |
| Current Ratio | >=1.10 |

**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 Guarantee | Simple |
| 5 | Non-fund-based - ST-Letter of credit | Simple |

**Annexure-5: Bank lender details for this company**

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, 2022 |
|---|---|---|---|
| 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 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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