

## Vadilal Enterprises Limited

July 07, 2020

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long-term Bank Facilities	25.34	CARE BBB-; Negative (Triple B Minus; Outlook: Negative)	Revised from CARE BBB (Triple B) & Removed from 'Credit watch with negative implications'
Long/Short-term Bank Facilities	0.50	CARE BBB-; Negative / CARE A3 (Triple B Minus; Outlook: Negative / A Three)	Revised from CARE BBB /CARE A3+ (Triple B /A Three Plus) & Removed from 'Credit watch with negative implications'
<b>Total Facilities</b>	<b>25.84</b> <b>(Rupees Twenty Five Crore and Eighty Four Lakh Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE has removed the ratings assigned to the bank facilities of Vadilal Enterprises Limited (VEL) from 'Credit watch with negative implications' upon timely publication of its last three quarterly financial results and emergence of clarity on future leadership of the company with past disputes amongst the two main promoters of VEL being largely resolved with their re-appointment as Managing Directors of Vadilal Industries Limited (VIL).

The revision in the ratings assigned to the bank facilities of VEL factors significant moderation in its profitability during Q4FY20 (FY refers to the period April 1 to March 31) and expected moderation in its overall financial risk profile during FY21 on the back of coinciding of Covid-19 pandemic induced lockdown with its peak sales season of Q1FY21.

The ratings of the bank facilities of VEL continue to derive strength from the vast experience of the promoters of VEL, its long-standing track record with established operations 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, strong operational linkage with VIL due to its exclusive rights for selling & distribution of ice-cream and other products manufactured by VIL in the domestic market, growing scale of operations of VEL primarily on the back of growth in scale of operations of VIL due to expansion of its geographical reach in the domestic market along with regular introduction of new flavours/variants in its product basket.

The above strengths are, however, tempered on account of moderation in the credit profile of VIL with which its prospects are intrinsically linked, very thin profitability margins of VEL due to the trading nature of its operations along-with its very small net-worth base resulting in very high leverage.

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 VEL reflects CARE's expectation of VEL incurring cash losses during FY21 amidst significant loss of revenue due to coincidence of Covid-19 induced lockdown with its peak sales season of ice cream manufactured by its associate concern, VIL, which may lead 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 balance part of FY21 which will be largely linked to the performance of VIL.

### Rating Sensitivities

#### Positive Factors

- Stabilization of its scale of operations at pre-COVID levels through improvement in the performance of VIL
- Significant improvement in leverage marked by overall gearing below 6 times
- Improvement in profitability margins marked by PAT margin above 1%

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Negative Factors**

- 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 the 'Basis for Disclaimer of Opinion' issued by its statutory auditors in their audit reports for the year-ended FY19 and FY20.
- Moderation in its debt coverage indicators marked by Total Debt/ GCA more than 3 times

**Detailed description of the key rating drivers****Key Rating Strengths*****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, Director, 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. While VIL has its own overseas subsidiaries for selling & distribution of its products in foreign countries, its selling & 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 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 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'. Further, the revenue stream of VIL is also moderately diversified geographically as it 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***

VEL 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. VEL 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.

**Key Rating Weaknesses*****Thin profitability margins & very high leverage owing to the trading nature of business along with net loss reported in FY20***

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. Due to its nature of business, profitability margins remain inherently very thin in VEL leading to very limited build-up of net-worth and thus resulting in very high leverage. As per published results for FY20, its PBILDT margin stood very thin at 2.52% during the year while it incurred net loss of Rs.0.83 crore on account of significant loss of sales in the last fortnight of March'20 due to nationwide lockdown imposed to contain the outbreak of Covid-19. Further, its overall gearing stood very high at 16.51 times as on March 31, 2020 (10.59 times as on March 31, 2019).

***Expected moderation in its financial profile on the back of similar moderation in the performance of VIL with which its prospects are intrinsically linked due to significant disruption of business operations during the peak season for ice-cream sales in Q1FY21 on account of outbreak of Covid-19 and subsequent lockdown***

VEL acts as the sole marketing arm of VIL in the domestic market and accordingly its fortunes are very closely linked to the prospects of VIL. 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. Upon the Covid-19 induced lockdown, VIL incurred cash loss during Q4FY20 and has also lost large part of its peak season sales during Q1FY21 and is therefore expected to report cash losses in FY21; thereby impacting its performance, which is in turn likely to adversely impact the performance of VEL also. At the request of VEL, its lenders have provided 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.

**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, Vadilal ice-cream faces high competition from various other established brands like Amul, Havmor, Kwaliti 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 VEL, during FY20 one of the independent director of VEL 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 three 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 left out claims of the promoters whose reports are delayed due to Covid-19. Further new statutory auditor of the company for FY20 has also issued disclaimer of opinion in the audit report of FY20 pending outcome of the investigation.

**Liquidity: Stretched**

VEL's liquidity stood stretched marked by almost full utilisation of its working capital limits and availment of 10% ad-hoc limits granted by its lenders as a Covid relief measure. Its current ratio stood very low at 0.41 times as on March 31, 2020 as per its published abridged results. Liquidity of VEL also remains stretched on the back of stretched liquidity of VIL with which it has strong operational linkages.

**Analytical approach: Standalone** along-with factoring its strong operational and managerial linkages with Vadilal Industries Limited (VIL).

**Applicable Criteria:**

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Criteria for Short Term Instruments](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology- Wholesale Trading](#)

[Liquidity Analysis of Non-financial sector](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

**About the Company**

Ahmedabad-based VEL, 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.

(Rs. Crore)

Brief Financials – VEL (Standalone)	FY19 (A)	FY20 *
Total operating income	574.58	594.09
PBILDT	14.82	14.99
PAT	0.09	(0.83)
Overall gearing (times)	10.59	16.51
PBILDT Interest coverage (times)	4.02	4.80

A: Audited

\*as per published abridged financial results on the stock exchange

**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 18, 2019 in absence of requisite information.

Any other information: Not Applicable

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

**Annexure - 1: Details of Instruments/Facilities**

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-Term Loan	-	-	April, 2023	15.34	CARE BBB-; Negative
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB-; Negative
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.50	CARE BBB-; Negative / 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-Term Loan	LT	15.34	CARE BBB-; Negative	-	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 (CE) (Under Credit watch with Negative Implications) (22-Aug-19) 4)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (10-Jun-19)	1)CARE BBB+ (SO); Stable (12-Sep-18)	1)CARE BBB+ (SO); Stable (28-Aug-17)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB-; Negative	-	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 (CE) (Under Credit watch with Negative Implications) (22-Aug-19) 4)CARE BBB+ (SO) (Under Credit watch with Developing Implications) (10-Jun-19)	1)CARE BBB+ (SO); Stable (12-Sep-18)	1)CARE BBB+ (SO); Stable (28-Aug-17)

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
3.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	0.50	CARE BBB-; Negative / CARE A3	-	1)CARE BBB / CARE A3+ (Under Credit watch with Negative Implications) (27-Dec-19) 2)CARE BBB / CARE A3+ (Under Credit watch with Negative Implications) (26-Sep-19) 3)CARE BBB (CE) (Under Credit watch with Negative Implications) / CARE A3+ (CE) (Under Credit watch with Negative Implications) (22-Aug-19) 4)CARE BBB+ (SO) / CARE A2 (SO) (Under Credit watch with Developing Implications) (10-Jun-19)	1)CARE BBB+ (SO); Stable / CARE A2 (SO) (12-Sep-18)	1)CARE BBB+ (SO); Stable / CARE A2 (SO) (28-Aug-17)

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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