

Vadilal Enterprises Limited

December 27, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	25.34	CARE BBB (Triple B); Under credit watch with negative implications	Continues on credit watch with negative implications
Long/Short-term Bank Facilities	0.50	CARE BBB / CARE A3+ (Triple B / A Three Plus); Under credit watch with negative implications	Continues on credit watch with negative implications
Total Facilities	25.84 (Rupees Twenty Five Crore and Eighty Four Lakh Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Vadilal Enterprises Limited (VEL) continue to remain 'under credit watch with negative implications' owing to lack of clarity about future leadership of the company on the back of heightened differences among the promoters of VEL which had led to significant delays in publication of its quarterly results on the stock exchange for Q4FY19 and Q1FY20 and which could impact the performance of the company going forward. The ratings take cognizance of the fact that quarterly results for Q2FY20 were published without any delay on the stock exchange apart from appointment of new statutory auditor (due to vacancy created on account of resignation of its statutory auditor before expiry of their tenure of appointment citing concerns over the management not completing/initiating enquires/ investigations into various matters, as mentioned in auditor's report for the year ended March 31, 2019 as disclaimer of opinion) and appointment of a law firm and CA firm to conduct independent enquiry/examination on the matters referred under "Basis for Disclaimer of Opinion" of the said auditor's report. CARE will take a view on the ratings of VEL post outcome of the independent enquiry/examination as above along with resolution of differences amongst the promoters and clarity on future leadership of the company.

The ratings of the bank facilities of VEL continue to derive strength from the vast experience of its promoters, 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 Vadilal Industries Ltd. (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 in 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 very thin profitability margin due to its trading nature of operations along-with very small net-worth base resulting in very high leverage. The ratings are also constrained due to heightened differences amongst the promoters of VEL leading to recurring instances of delay in publication of its financial results on the stock exchange in recent past, resignation of two independent directors raising concerns over the corporate governance in the company, disclaimer of opinion given by the erstwhile statutory auditor in their audit report for FY19 followed by their resignation in November 2019 before expiry of the tenure of their appointment.

Rating Sensitivities

Positive factors

- Resolution of differences among promoter group and clarity on future leadership
- Significant improvement in leverage marked by overall gearing below 6 times
- Improvement in profitability margins marked by PAT margin above 1%

Negative factors

- Inordinate delay in resolution of differences among the promoters
- Any materially negative outcome from the on-going investigation being conducted on the basis of allegations by promoters on one another
- Moderation in its debt coverage indicators marked by Total Debt/ GCA more than 3 times

¹Complete 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

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, Mr. Devanshu Gandhi, 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.

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 has its own overseas subsidiaries for selling & distribution of its products in foreign countries but VEL looks after its selling & distribution for Indian market 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 well 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.

Adequate debt coverage indicators

The debt coverage indicators of VEL though moderated during FY19 stood adequate marked by total debt/ GCA and interest coverage at 2.51 times & 4.02 times respectively during FY19 compared with 1.81 times & 4.63 times during FY18. Debt coverage indicators have slightly moderated during FY19 mainly due to rise in term debt during FY19.

Key Rating Weaknesses

Heightened differences among the promoter group leading to instances of delay in publication of financial results on the stock exchange in recent past, resignation of some independent directors & lack of clarity about future leadership of the company

VEL published its financial results on the stock exchange for the year and quarter ended March 31, 2019 & quarter ended June 30, 2019 on August 24, 2019 post multiple instances of postponement of meetings of its Board of Directors. As communicated by the management of the company, the reason for delay in publication of its results was because of some ongoing dispute amongst the brothers in the promoter group. Because of the same, publication of results of VEL for Q2FY19 was also delayed earlier. Amidst this dispute among the promoters, in July 2019, two independent directors of VEL resigned from the Board citing hostile atmosphere in the board meetings making it impossible for them to add any value in the interest of the company. Accordingly, upon reduction of strength of independent directors in VEL, Mr. Rajesh Gandhi also had to step down from the post of Chairman and Mr. Vijay Shah, an independent director of the company was appointed as Chairman of VEL with immediate effect to comply with the SEBI regulation of Section 17(1) of Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. However, Mr. Rajesh Gandhi continues to be a director of the company and a part of the Board. Further, in March 2019, the board of VEL could not re-appoint Mr. Rajesh Gandhi and Mr. Devanshu Gandhi as Managing Directors of the company and resolved to look for professional management. On December 15, 2019, Mr. Yogesh Bhatt and Mr. Anil Patil have been appointed as Interim Chief Executive Officers (CEOs) of VEL till the time company appoints a Managing Director.

In view of the on-going heightened differences between the promoters leading to lack of clarity on future leadership, the operational performance of the company and its market image are likely to have negative impact in short to medium term.

Disclaimer of opinion by statutory auditor in their audit report of the company for FY19 and their subsequent resignation before expiry of their tenure of appointment

The statutory auditor of VEL issued disclaimer of opinion in the audit report to the financial statements for the year ended March 31, 2019. As per the audit report, the promoter directors of the company have made various allegations and counter allegations on each other primarily relating to the operations and management of the company on a wide range of matters including potential personal expenses claimed as official expenses, funds management, dissemination of price sensitive information, demand for re-examination of books of account of past periods, legitimacy of salaries paid to relatives of the promoter directors, payments made to a vendor without services being received and independence of Independent Directors, amongst others. However, on July 23, 2019, the promoter directors have jointly communicated to the board of VEL about withdrawal of all the allegations made on each other except for the allegation with respect to claiming of personal expenses as business expenses of Rs.45.90 lakh by Rajesh Gandhi during FY14-FY18 and Rs.53.39 lakh by Devanshu Gandhi during FY14-FY19. The statutory auditor of VEL resigned on December 13, 2019 citing concerns over the management not completing/initiating enquires/ investigations into various matters, as mentioned in the said audit report. On December 15, 2019 the Committee of Independent Directors of VEL have appointed a Law firm and a CA firm to conduct an independent enquiry/examination on the matters stated in the audit report and have also appointed a new statutory auditor w.e.f from December 13, 2019.

Thin profitability margins & very high leverage owing to the trading nature of business

PBILDT & PAT margins of VEL stood very thin at 2.58% & 0.02% during FY19 whereas its overall gearing stood very high at 10.59 times as on March 31, 2019. 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 are very thin in VEL leading to very limited build-up of net-worth and thus resulting in very high leverage. However, it is comfortably placed to service its debt repayment obligations vis-a-vis its cash accruals.

Liquidity: Adequate

VEL's liquidity remained adequate as indicated from the modest average working capital utilisation of around 32% during the twelve month period ended June 2019. However, the utilisation levels remain high during peak season i.e. from October to March largely due to higher inventory requirement on the back of relatively cheaper procurement of raw materials to ensure smooth functioning of operations during the upcoming summer season. Operating cycle of VEL remained comfortable at 5 days in FY19. As articulated by the company's management, the company has made prepayment of term debt repayment obligations for FY20 out of operating cash accruals of H1FY20.

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

CARE had previously taken a 'combined' analytical view of VIL (Consolidated) and Vadilal Enterprises Ltd (VEL; an associate company of VIL which is separately listed); however this approach has now been changed in line with change in CARE's rating criteria whereby 'listed' companies won't be assessed on 'combined' analytical approach.

Applicable Criteria

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

[Criteria for Short Term Instruments](#)

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

[CARE's Methodology for Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology- Wholesale Trading](#)

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

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)	FY18 (A)	FY19 (A)
Total operating income	547.21	574.58
PBILDT	11.58	14.82
PAT	0.15	0.09
Overall gearing (times)	6.32	10.59
PBILDT Interest coverage (times)	4.63	4.02

A: Audited

Further, as per the published financial results for H1FY20, VEL earned a total operating income of Rs.432.67 crore and PAT of Rs.11.92 crore as against total operating income of Rs.384.09 crore and PAT of Rs.4.03 crore during H1FY19.

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 (Last three years): Please refer Annexure-2

Annexure-1: Details of Facilities

Name of the 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 (Under Credit watch with Negative Implications)
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB (Under Credit watch with Negative Implications)
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	0.50	CARE BBB / CARE A3+ (Under Credit watch with Negative Implications)

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	15.34	CARE BBB (Under Credit watch with Negative Implications)	1)CARE BBB (Under Credit watch with Negative Implications) (26-Sep-19) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (22-Aug-19) 3)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)	1)CARE BBB (SO) (21-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BBB (Under Credit watch with Negative Implications)	1)CARE BBB (Under Credit watch with Negative Implications) (26-Sep-19) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) (22-Aug-19) 3)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)	1)CARE BBB (SO) (21-Sep-16)
3.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	0.50	CARE BBB / CARE A3+ (Under Credit watch with Negative Implications)	1)CARE BBB / CARE A3+ (Under Credit watch with Negative Implications) (26-Sep-19) 2)CARE BBB (CE) (Under Credit watch with Negative Implications) / CARE A3+ (CE) (Under Credit watch with Negative Implications) (22-Aug-19) 3)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)	1)CARE BBB (SO) / CARE A3+ (SO) (21-Sep-16)

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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