Vadilal Enterprises Limited

June 10, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	34.04	**CARE BBB+ (SO) [Triple B Plus (Structure Obligation)]; Under credit watch with developing implications**	Placed under Credit Watch with Developing Implications
Long/Short-term Bank Facilities	0.50	**CARE BBB+ (SO) / CARE A2 (SO) [Triple B Plus (Structure Obligation) / A Two (Structure Obligation)]; Under credit watch with developing implications**	Placed under Credit Watch with Developing Implications
Total Facilities #	**34.54 (Rupees Thirty Four Crore and Fifty Four Lakh Only)**		

Details of facilities in Annexure-1

 # Bank facilities are backed by the unconditional and irrevocable corporate guarantee of Vadilal Industries Limited (VIL; rated: CARE BBB+ / CARE A2; Under credit watch with developing implications)

Detailed Rationale & Key Rating Drivers

The ratings for the bank facilities of Vadilal Enterprise Limited (VEL) are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee of Vadilal Industries Limited (VIL; rated: CARE BBB+ / CARE A2; Under credit watch with developing implications).

The ratings assigned to the bank facilities of VEL have been placed under 'Credit watch with developing implications' in view of delay in publishing of financial results of VIL for the quarter and year ended March 31, 2019 within the stipulated timeframe. CARE will take a view on the ratings once the said financial results are published on the stock exchange and the exact implications of the above on the credit risk profile of VIL become clear.

The ratings assigned to the bank facilities of VIL continue to derive strength from the vast experience of the promoters of Vadilal group [comprising of VIL and its group company Vadilal Enterprises Limited (VEL)], group's long-standing track record with established operations in ice-cream business and more than a century old 'Vadilal' brand presence in domestic ice-cream market supported by the strong marketing and distribution network. The ratings further continue to derive the strengths from growing scale of operation backed by and expansion in geographical reach both in domestic and export market along with regular introduction of new flavours/variants in product basket. The ratings also factor in the improvement in profitability margins during 9MFY19 after witnessing decline in FY18 over FY17.

The above strengths are, however, tempered on account of capital intensive nature of business resulting in relatively high leverage, 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 also factor in large size debt funded capital expenditure plan which could continue to keep the leverage at high level in coming years.

The ability of the group to significantly increase its scale of operations through greater geographical diversification amidst high competition, timely implementation and realization of the envisaged benefits from planned debt-funded capex and efficiently manage its working capital requirements would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

VIL is promoted by Mr. Vadilal Gandhi who started ice-cream business in 1907. Currently, the operations of the VIL are managed by the third and fourth-generations 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 operation of the company, Mr. Devanshu Gandhi looks after the sales, marketing and distributions. Apart from the finance function, Mr. Kalpit Gandhi looks after the plant operations on day to day basis.

Long standing track record having established 111- year old brand "Vadilal'

The brand 'Vadilal' has been enjoying a legacy for more than a century. The brand has leadership in the states like Gujarat, Rajasthan, UP and Haryana with a healthy market share. 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 the ice-cream and frozen dessert, VIL also ventured into processed food business under the brand 'Quick

[1]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Treat'. Further, the revenue stream is also well diversified geographically as Vadilal group earns nearly 70%-75% of ice-cream revenue from the states of Gujarat, Rajasthan Uttar Pradesh and Haryana; whereas balance from the remaining states.

Strong marketing and distribution network

Vadilal group has marketing presence in 16 states of India with the support of 61 C&F agents, over 1,200 distributors, more than 45,000 retailers and 290 distribution vehicles. The group 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. Furthermore, the group mainly exports these processed food products, frozen desserts along with ice-creams to 45 countries across four continents, the key markets include USA, South-East Asian and European countries. During FY18, Vadilal group has registered 58% growth in export sales which stood at Rs.85.70 crore.

Volume backed consistent growth in scale of operations and favourable demand outlook

The total operating income (TOI) of Vadilal group on combined basis registered a compounded annual growth rate (CAGR) of nearly 11% since last three years ended FY18, further grew by around 12% during FY18 on y-o-y basis on the back of increase in the sales volume of its overall range of products coupled with largely stable sales realization. Further, as per provisional results for 9MFY19, TOI of the group increased y-o-y by 14% to Rs.529.58 crore backed by volume growth witnessed by the group in domestic market as well as improved sales realization in exports market. The growth in the sales volume was supported by geographical expansion coupled with continuous introduction of new products/flavors. Moreover, the ice-cream consumption is likely to show steady albeit modest growth due to changing lifestyle, growing urbanization and rise in disposable income.

Moderate leverage and debt-coverage indicators

Vadilal group's capital structure marked by overall gearing ratio improved over the last four year ended FY18 largely on account of healthy accretion of profits however continue to remain moderately high at 1.68 times as on March 31, 2018. Furthermore, the debt coverage indicators i.e. total debt/ GCA and interest coverage continues to remain moderate at 4.16 times and 3.62 times respectively in FY18.

Liquidity Analysis

Liquidity position of VIL continued to remain moderate as indicated from modest average working capital utilisation of around 47% and 27% for VIL and Vadilal Enterprises Ltd (VEL) respectively for past twelve months ended June 2018. However, utilisation remains 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 summer season. Furthermore, operating cycle on a combined basis largely remained stable at 58 days for FY18. Current ratio improved marginally but continued to remain below unity at 0.98 times as on March 31, 2018 mainly due to high amount of current portion of long term debt. As articulated by the company's management, on combined basis, the group has made prepayment of debt of Rs.10.17 crore during April 2019 -May 2019 out of its healthy cash accruals.

Key Rating Weakness

Relatively high leverage and modest return indicators due to high capital intensity

Ice-cream manufacturing and distribution industry is capital intensive in nature requiring investment in production facilities, innovative products in terms of flavours and packaging, as well as marketing assets like cold chain, deep freezers, refrigeration equipped delivery vehicles, push card, etc. During last four years ended FY18, Vadilal group on a combined basis incurred capital expenditure of around Rs.120 crore which was funded through term debt of Rs.93 crore and balance through internal accruals. Although, the leverage of the group marked by overall gearing ratio shown an improving trend over past 4 years ended FY18, it continued to remain relatively high as on March 31, 2018 due to high capex requirement and seasonality associated with the business which lead to high working capital utilisation as on balance sheet dates. Moreover, due to modest revenue growth of around 10% and modest profitability apart from high capital requirement, the return indicators of the company remained moderate marked by ROCE of 14.46% during FY18.

Large size debt funded capital expenditure plans

Vadilal group has witnessed higher sales growth in states like Uttarakhand, Bihar, Chandigarh, Chhattisgarh, Delhi, Haryana, Himachal Pradesh among other states from last couple of years hence planning to expand its footprint in North and East regions of India through establishing new production facilities expected in East India along with that the group has plans to establish cold storage facilities near its Bareilly plant in Uttar Pradesh. The expected project cost for this two project is around Rs.70 crore which the company is planning to fund through term debt of Rs.49 crore and remaining through internal accruals. These projects were expected to be spread over FY19 and FY20. However, VIL has not expended much on these capex during FY19.

Susceptibility of Vadilal group's 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, butter and cream, which Vadilal group procures from local dairies near to its manufacturing units. The prices of key raw materials have increased gradually over the years given the rising demand and constrained supply scenario. Also, each year during November to January, the raw material prices are at their lowest due to dynamics of dairy industry. The group focuses on procuring their entire requirement for the upcoming summer season during this period to avail the benefit of better quality raw material at lower prices. SMP prices globally declined substantially from April 2014 mainly due to weak demand from one of the largest importer i.e. China along with abolition of three decade old milk production quota system within European Union (EU) countries resulting in enhanced supply. Thus, as an effect of quota abolition, the global prices of SMP remained weak on back of oversupply. However, during FY19, post announcement of various subsidies by Government of Gujarat, Government of Maharashtra and Central Government on export of SMP, its prices have shown an increasing trend. However, in domestic market the production of milk and milk products are increasing leading to sufficient supply which is expected to keep the prices under check. Further, during FY18, the group also earned nearly 13% of net sales from export whereas the company has no imports on the other side. Hence, the group is exposed to adverse fluctuation in foreign currency exchange rates. However, the group generally enters into forward covers which mitigate the forex risk.

Seasonality of demand as well as changing consumer taste and preferences

The sales for Vadilal group are concentrated over the summer months, reflecting the seasonality of the business. Hence, the group's 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 the upcoming summer season. The business is also susceptible to changing tastes of consumers which also lead 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 unorganised players. There are large numbers of big and medium ice-cream companies in India and innumerable small and seasonal companies doing business. Although, there is a huge opportunity to industry players since India is one of the fastest growing countries in ice-cream production and consumption due to its high population and growing per capital income. Vadilal faces high competition from various established brands like Amul, Havmor, Kwality Walls, Cream Bell, Mother Dairy, Top 'N' Town, Dinshaw's, etc. In addition, Vadilal faces competition from unorganized ice-cream manufactures at local levels.

Analytical Approach: CARE has taken a combined view of consolidated financials of VIL and financials of VEL due to their managerial and operational linkages apart from VIL's propensity to support VEL's operation under the corporate guarantee obligation. List of entities getting consolidated in VIL is placed at **Annexure-3**.

Applicable Criteria

Criteria on assigning credit watch
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's Methodology for Factoring Linkages in Ratings
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the Company (VEL)

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 in India. The company is promoted by promoters of VIL. Both these companies operate under the common management.

(Rs.Crore)

Brief Financials	**VEL (Standalone)**	
	FY17 (A)	**FY18 (A)**
Total operating income	519.31	547.21
PBILDT	11.25	11.58
PAT	0.16	0.15
Overall gearing (times)	5.24	6.32
PBILDT Interest coverage (times)	7.12	4.63

A: Audited

Further, during 9MFY19 (Un-audited), VEL earned a total operating income of Rs.462.30 crore and net loss of Rs.3.88 crore as against total operating income of Rs.430.39 crore and PAT of Rs.0.30 crore during 9MFY18 (Un-audited).

About Guarantor (VIL)

Ahmedabad-based VIL, which was incorporated in 1982, is engaged into 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 as on March 31, 2018. VIL also diversified into the processed food segment in 1991 and has one manufacturing facility for processed food with capacity of 46,200 MTPA at Dharampur in Gujarat. 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 the ice-cream and frozen dessert, VIL also ventured into processed food business under the brand 'Quick Treat' and product portfolio includes frozen vegetables, ready-to-eat frozen snacks, Indian bread and curries, paneer and flavored milk. On a standalone basis, during FY18, VIL earned around 87% of gross sales from sale of Ice-cream and remaining 13% from processed food segment. Processed foods are mainly exported (nearly 75%).

Furthermore, VIL has also started exports of ice-cream mainly to USA through its wholly owned subsidiary, Vadial Industries (Inc), USA and recently incorporated a new subsidiary in United Arab Emirates (UAE) in the name of Vadilal Gulf (FZE). VIL also provides foreign exchange consultancy services (mainly money changing service) as it is RBI approved authorized dealer.

(Rs.Crore)

Brief Financials	VIL (Consolidated)		Combined [VIL (Consolidated) + VEL] #	
	FY17 (A)	FY18 (A)	FY17 (UA)	FY17 (UA)
Total operating income	483.83	552.19	579.68	652.00
PBILDT	58.24	52.59	69.50	64.53
PAT	19.06	15.66	19.22	15.81
Overall gearing (times)	1.74	1.54	1.85	1.68
PBILDT Interest coverage (times)	3.64	3.46	3.96	3.62

A: Audited; UA: Unaudited

 # net of Inter-company transaction

Further, on a consolidated basis during 9MFY19 (Un-audited), VIL earned a total operating income of Rs.463.25 crore and PAT of Rs.39.79 crore as against total operating income of Rs.431.46 crore and PAT of Rs.14.85 crore during 9MFY18 (Un-audited).

On a combined basis, during 9MFY19 (Un-audited), Vadilal group earned a total operating income of Rs.529.58 crore and PAT of Rs.35.91 crore as against total operating income of Rs.466.02 crore and PAT of Rs.15.15 crore during 9MFY18 (Un-audited).

Status of non-cooperation with previous CRA: Rating assigned by CRISIL to the fixed deposits instrument of the company continued to remain under 'Issue not cooperating' category vide press release dated December 31, 2018 in absence of requisite information.

Any other information: Not Applicable

Rating History (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	24.04	CARE BBB+ (SO) (Under Credit watch with Developing Implications)
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE BBB+ (SO) (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.50	CARE BBB+ (SO) / CARE A2 (SO) (Under Credit watch with Developing 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	24.04	CARE BBB+ (SO) (Under Credit watch with Developing Implications)	-	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+ (SO) (Under Credit watch with Developing Implications)	-	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+ (SO) / CARE A2 (SO) (Under Credit watch with Developing Implications)	-	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)

Annexure-3: List of entities getting consolidated in VIL

Sr. No.	Name of the Entity	Subsidiary / Associate / Joint Venture	% Shareholding by VIL as on March 31, 2018
1.	Vadilal Industries (USA) Inc	Subsidiary	100.00
2.	Vadilal Industries Pty Ltd.	Subsidiary	100.00
3.	Vadilal Gulf (FZE)	Subsidiary	100.00
4.	Vadilal Cold Storage	Subsidiary	98.00

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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About CARE Ratings:

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