# Vadilal Enterprises Limited

August 22, 2019

**Ratings**

| Facilities | Amount (Rs. Crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 25.34 (Reduced from Rs.34.04 crore) | **CARE BBB (CE) [Triple B (Credit Enhancement)]; Under credit watch with negative implications** | **Revised from CARE BBB+ (SO) [Triple B Plus (Structured Obligation)];Under credit watch with developing implications** |
| Long/Short-term Bank Facilities | 0.50 | **CARE BBB (CE) / CARE A3+ (CE) [Triple B (Credit Enhancement) / A Three Plus (Credit Enhancement)]; Under credit watch with negative implications** | **Revised from CARE BBB+ (SO) / CARE A2 (SO) [Triple B Plus (Structured Obligation)/A Two (Structured Obligation)]; Under credit watch with developing implications** |
| **Total Facilities #** | **25.84 (Rupees Twenty Five crore and Eighty Four lakh only)** | | |

*Details of facilities in Anneuxre-1*

***Note:*** *As per SEBI Circular - SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019, CARE now assigns CE (Credit Enhancement) suffix for the ratings backed by explicit credit enhancements from third party/parent/group company. Previously, CARE had assigned SO (Structured Obligation) suffix for ratings backed by such credit enhancements.*

*# Bank facilities are backed by the unconditional and irrevocable corporate guarantee of Vadilal Industries Limited (VIL; rated: CARE BBB / CARE A3+; Under credit watch with negative implications)*

**Detailed Rationale & Key Rating Drivers**

*The revision in the ratings assigned to the bank facilities of Vadilal Enterprises Limited (VEL) follows similar revision in the ratings of Vadilal Industries Limited (VIL) from which it derives credit enhancement in the form of unconditional and irrevocable corporate guarantee for its bank facilities.*

*The revision in the ratings assigned to the bank facilities of VIL is on account of recurring delays in publication of its financial results on the Stock Exchange for the quarter and year ended March 31, 2019 & quarter ended June 30, 2019, resignation of two independent directors raising concerns over the corporate governance in the company and heightened differences among the promoters of the Vadilal group [comprising of VIL and its group company Vadilal Enterprises Limited (VEL)] which could impact the operational performance & capex plans of the group going forward.*

*Simultaneously, the ratings of the bank facilities of VIL have been placed under 'Credit watch with negative implications' in view of continued lack of clarity about the timelines for publication of its results and lack of clarity about future leadership of the company. CARE will take a view on the ratings of VIL once its already delayed financial results are published on the stock exchange, there is timely publication of its financial results for the forthcoming quarter, complete resolution of differences among the promoters and clarity on future leadership of the group.*

*The ratings assigned to the bank facilities of VIL continue to derive strength from the vast experience of the promoters of Vadilal group, 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 its strong marketing and distribution network. The ratings further continue to derive strength from the growing scale of operation backed by expansion in geographical reach both in domestic and export markets along with regular introduction of new flavours/variants in its product basket. The ratings also factor in the improvement in profitability margins during 9MFY19 after witnessing decline in FY18 over FY17. The rating also takes cognizance of management's articulation about deferment of large size debt funded capital expenditure plan which is expected to improve the leverage position of the group in coming years.*

*The above strengths of VIL 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 ability of the group to significantly increase its scale of operations through greater geographical diversification amidst high competition, improve its capital structure and efficiently manage its working capital requirements would be the key rating sensitivities.*

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

**Detailed description of the key rating drivers (of the guarantor, VIL)**

**Key Rating Strengths**

***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, 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.

***Long standing track record having established 111- year 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 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 ice-cream and frozen dessert, VIL also ventured into processed food business under the brand 'Quick 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 comes from the remaining states.

***Strong marketing and distribution network***

Vadilal group 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. 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 registered 58% growth in export sales which stood at Rs.85.70 crore.

***Volume backed consistent growth in scale of operations during FY18 and 9MFY19 along with steady demand outlook for ice-cream industry***

The total operating income (TOI) of Vadilal group which registered a compounded annual growth rate (CAGR) of nearly 11% on combined basis during last three years ended FY18, 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 export 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 exhibit modest growth due to changing lifestyle, growing urbanization and rise in disposable income.

***Moderate debt-coverage indicators***

Vadilal group's debt coverage indicators i.e. total debt/ GCA and interest coverage continued to remain moderate at 4.16 times and 3.62 times respectively in FY18. Its debt coverage indicators marked by interest coverage improved to 7.21 times during 9MFY19 from 4.55 times during 9MFY18 on the back of improved profitability from operations.

***Liquidity Analysis***

Liquidity position of VIL continued to remain moderate as indicated from modest average working capital utilisation of around 44% and 27% for VIL and Vadilal Enterprises Ltd (VEL) respectively for past twelve months 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 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 pertaining to FY20 to the extent of Rs.12.44 crore during April 2019 to July 2019 out of its operating cash accruals during this period.

**Key Rating Weaknesses**

***Repeated delay in publication of financial results on the Stock Exchange for the quarter and year ended March 31, 2019 & quarter ended June 30, 2019, resignation of two independent directors and heightened differences among the promoter group***

Both VIL & VEL have not yet published their financial results on the stock exchange for the year and quarter ended March 31, 2019 & quarter ended June 30, 2019 due to multiple instances of postponement of meetings of its Board of Directors.

As communicated by the company management, the reason for delay in publication of its results is because of some ongoing dispute amongst the brothers in the promoter group. Because of the same, results of VIL & VEL were earlier also delayed for Q2FY19. As per Q2FY19 & Q3FY19 results published on the Stock Exchange, the Board of Directors of the respective companies have initiated an enquiry into the legitimacy of certain payments (already debited to the accounts) amounting to Rs.0.30 crore made by VIL and Rs.0.59 crore made by VEL. However, there is no clarity on the exact dispute among the promoters. Amidst this dispute among the promoters, in July 2019, two independent directors of VIL & 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, 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 with immediate effect to comply with the SEBI regulation of Section 17(1) of Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. However, he continues to be a director of the company and a part of the Board. Further, in March 2019, the board could not re-appoint Mr. Rajesh Gandhi and Mr. Devanshu Gandhi as Managing Directors of the company and resolved to look for professional management. In view of the on-going heightened differences between the promoters leading to delay in publication of financial results and lack of clarity on future leadership, the operational performance of the company, its essential capex plans and its market image are likely to have negative impact in short to medium term.

***Relatively high leverage and modest return indicators due to high capital intensity of the business; albeit expected improvement in leverage on account of deferment of its previously planned large-sized debt funded capital expenditure plans***

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 had incurred capital expenditure of around Rs.120 crore which was funded through term debt of Rs.93 crore and balance through internal accruals. Also, the seasonality associated with the business leads to high working capital utilization as on balance sheet dates. Consequently, the leverage of the group has continued to remain relatively high marked by an overall gearing of 1.68 times as on March 31, 2018.

In order to expand its footprints in Northern and Eastern regions of India, the group had plans to establish new production facility in East India. Along with that the group also had plans to establish cold storage facilities near its Bareilly plant in Uttar Pradesh. The envisaged cost for these two projects was around Rs.70 crore which the company was planning to fund through term loan of Rs.49 crore and remaining through internal accruals. The execution of these two projects was expected to be spread over FY19 and FY20. However, as articulated by the company management, the said capex plans have been deferred by the company. Hence, the leverage of the group is expected to gradually improve going forward.

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.

***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 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 financial year during the period from 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. Globally, SMP prices had 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 the 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 to some extent.

***Seasonality of demand as well as challenges arising from changing consumer tastes and preferences***

The sales of Vadilal group are normally 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 meeting the demand in the upcoming summer season. The business is also susceptible to changing tastes of consumers requiring investments 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-organised players with innumerable small and seasonal companies doing the business. 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 countries in ice-cream production and consumption due to its high population and growing per capita income; however, Vadilal faces high competition from various 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.

**Analytical Approach: Combined.** CARE has taken a combined view of consolidated financials of VIL (rated CARE BBB/ CARE A3+ ; under credit watch with negative implications) 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 Outlook and Credit Watch to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
CARE's Methodology for Factoring Linkages in Ratings
Criteria for Rating Credit Enhanced Debt
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 the promoters of VIL. Both these companies operate under the common management platform.

(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 incurred a 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 the Guarantor (VIL)**
Ahmedabad-based VIL, 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 as on March 31, 2019. 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 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 has also 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 an RBI approved authorized dealer.

(Rs.Crore)

| Brief Financials | VIL (Consolidated) | | Combined [VIL (Consolidated) + VEL] # | |
|---|---|---|---|---|
| | FY17 (A) | FY18 (A) | FY17 (UA) | FY18 (UA) |
| Total operating income | 483.83 | 552.19 | 579.68 | 652.00 |
| PBILDT | 58.24 | 52.95 | 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 'Issuer not cooperating' category vide its 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 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 (CE) (Under Credit watch with Negative Implications) |
| Fund-based - LT-Cash Credit | - | - | - | 10.00 | CARE BBB (CE) (Under Credit watch with Negative Implications) |
| Non-fund-based - LT/ ST-Bank Guarantees | - | - | - | 0.50 | CARE BBB (CE) (Under Credit watch with Negative Implications) / CARE A3+ (CE) (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 (CE) (Under Credit watch with Negative Implications) | 1)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 (CE) (Under Credit watch with Negative Implications) | 1)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 (CE) (Under Credit watch with Negative Implications) / CARE A3+ (CE) (Under Credit watch with Negative Implications) | 1)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) |

**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:**
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.



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