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# India Ratings Affirms Vadilal Enterprises' Debt at 'IND BBB+'/Stable; Rates Additional Term Loan

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India Ratings and Research (Ind-Ra) has taken the following rating actions on Vadilal Enterprises Limited's (VEL) debt instruments:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating/Outlook | Rating Action |
|---|---|---|---|---|---|---|
| Fund-based working capital limit | - | - | - | INR20 (reduced from INR105.7) | IND BBB+/Stable/IND A2 | Affirmed |
| Non-fund based working capital limit | - | - | - | INR5 | IND A2 | Affirmed |
| Term loan | - | - | 31 May 2025 | INR29.3 | IND BBB+/Stable | Affirmed |
| Term loan | - | - | 31 March 2026 | INR85.7 | IND BBB+/Stable | Assigned |

**Analytical Approach:** Ind-Ra continues to take a consolidated view of VEL and its group company, Vadilal Industries Limited (debt rated at 'IND BBB+'/Stable), together referred to as the Vadilal Group (VG) hereafter, while arriving at the ratings on account of the significant operational linkages between them.

## Key Rating Drivers

**Strong Growth in Revenue in FY23; Healthy EBITDA Margins:** On a consolidated basis, the revenue surged about 51% yoy to INR12,725 million in FY23, led by a revival in domestic demand for ice cream and processed food owing to the receding impact of covid-led disruptions. During 1QFY23, VG generated about 37% of FY23 revenue and 40% of EBITDA from domestic and export sales. Further, domestic sales accounted for 79% of the total sales in FY23 (FY22: 70%) and exports for the remaining. The consolidated EBITDA margin increased marginally to 13.5% in FY23 (FY22: 13.2%), led by increased realisations and better absorption of fixed costs owing to the rise in revenue. During 1HFY24, VG's revenue grew 13% yoy to INR8,884 million.

**Improvement in Interest Coverage in FY23; Although Net Leverage Remained Modest:** VG's interest coverage (EBITDA/gross interest expense) improved substantially to 9.98x in FY23 (FY22: 5.2x, FY21: 1.9x) due to an increase in the EBITDA to INR1,715 million (INR1,112 million) and a decline in the interest expenses to INR172 million (INR216 million) owing to scheduled repayment of term loans. However, the net leverage (net debt/EBITDA) deteriorated marginally to 1.5x in FY23 (FY22: 1.3x) owing to an increase in the debt to INR2,981 million (INR1,905 million) as the company availed higher working capital bank borrowings during the year.

**Liquidity Indicator - Adequate:** VG's average utilisation of the working capital limits was comfortable at 19% for the 12 months ended November 2023. At FYE23, the group had cash balances of INR388 million (FYE22: INR503 million) with unutilised working capital limits of INR135.1 million, against term loans, inter-corporate deposits (ICDs) and fixed deposits from shareholders of INR707 million. At 1HFYE24, the group had cash balances of INR1,035 million. Ind-Ra considers VG's liquidity profile to be adequate, given the availability of sufficient funds to meet current maturities of term loans, ICDs and fixed deposits of INR 5.7 million in FY24.

However, VG's cash flow from operations declined to INR264 million in FY23 (FY22: INR342 million), primarily on account of a sharp increase in working capital requirement to fund the increased demand. This, coupled with a large capex of INR523 million in FY23 (FY22: INR348 million) to fund capacity expansion in view of the rising demand, caused the group's free cash flow to deteriorate further to negative INR269 million in FY23 (FY22: negative INR5 million).

**Established Brand Presence in India and Abroad:** VG has an established brand presence across India as well as the US, where its target customer base is the Indian-origin population. Vadilal is one of the top ice cream brands in India, with a strong presence in Gujarat; the group operates around 40 company-owned ice cream parlours in Ahmedabad. VG also has a wide presence across 23 states in the country. The group has tie-ups with more than 70 carrying and forwarding agencies for regular sales, 1,500 distributors and around 70,000 retail points, and has over 300 stock keeping units. The group has also adopted the franchisee route to increase market penetration and enhance its brand presence, and operates more than 40 franchisee-based ice cream parlours under the brands Happinezz and Hangout.

**Geographical Diversification Supports Profitability:** VG has a well-diversified geographical presence as it caters to ice cream and frozen food demand in the domestic as well as the overseas markets such as the US. The group distributes its products in the US through its wholly-owned subsidiary, Vadilal Industries (USA) Inc (VIU). Of the group's overall export revenue of INR3,260 million in FY23, around 91% was from the US. The average realisations in the export market tend to be relatively higher than the domestic markets, thus improving the overall margins for the group.

**Seasonal Business, Although Limited Raw Material Price Risk:** The ice cream business is highly seasonal in nature, with maximum consumption taking place during the summer season. Consequently, the first quarter of every fiscal year accounts for around 38% of the annual sales- and about 40% of annual EBITDA. This seasonality of business restricts the group's return on capital employed, due to poor sales during the non-peak season. The group has been managing the impact of seasonality by availing special funding during the peak season, and sourcing cost-effective raw material during winter, since it benefits from a pricing advantage as the price of skimmed milk powder and milk tends to be lower on account of oversupply in the market. In addition, the peak consumption season in the US markets tends to be the second quarter of the fiscal year. Given the increasing share of exports to the US, the peak sales of the group could be spread across the first and second quarters of the fiscal year, thereby offsetting the risk of seasonality to some extent.

**Qualified Audit Opinion:** The auditors have maintained a qualified opinion due to the pending receipt of the report over the allegations levelled by the promoter directors, Rajesh Gandhi and Devanshu Gandhi on each other over potential personal expenses shown as business expenses (FY18-FY19: INR2.53 million; FY15 and FY19 (combined): INR2.5 million in VIL) and matter relating to the cross allegations between the promoter directors during FY14 to FY18 and FY14 to FY19 for the appropriateness of the expenses amounting to INR4.59 million and INR5.4 million, respectively, in VEL, which were claimed as business expenses.

The group received interim audit reports from an independent law and chartered accountant firm, appointed by the committee of independent directors, stating that there were no adverse observations or findings regarding the allegations levelled by the two promoter directors on each other, relating to the matters on the operations and management of the group. Thus, as per the board of directors this did not have a material financial impact on VG's financials in FY23. However, Ind-Ra takes cognizance of the ongoing National Company Law Tribunal's litigation pertaining to the prevention of oppression and mismanagement of funds at VIL/VEL, and will continue to monitor the developments regarding the same.

**Standalone Performance:** The company's revenue improved by 70% yoy to INR9,288 million in FY23 owing to the increase in domestic demand. The EBITDA margin was 1.0% in FY23 (FY22: 2.25%). The interest coverage improved to 6.7x in FY23 (FY22: 5.7x) due to higher proportionate reduction in interest expense despite a reduction in EBITDA. The net leverage was 0.07x in FY23 (FY22: 0.03x).

## Rating Sensitivities

**Positive:** Factors that could, individually or collectively, lead to a positive rating action are:

- a substantial increase in the scale of operations, including increasing contribution from the higher-margin exports business, leading to margin expansion and higher free cash flow generation, along with the interest coverage exceeding 6.5x and the net leverage reducing below 1.0x on a sustained basis, while maintaining adequate liquidity position,
- a favourable resolution of the ongoing issues at the promoter level.

**Negative:** A sharp decline in scale of operations, coupled with lower contribution from export markets, leading to a decline in profitability, lower free cash flow generation and stretched liquidity position with the interest coverage declining to 2.5x and the net leverage increasing to 3.0x on a sustained basis, will be negative for the ratings.

## Company Profile

VG, led by Rajesh Gandhi, operates through VEL and VIL.

VEL, listed on The National Stock Exchange of India Limited and BSE Limited, is involved in the retail sale of VIL-manufactured ice creams in the domestic market. VEL owns deep freezers and freezers on wheels. All marketing decisions such as geographical presence and the pricing of stock keeping units are taken by VEL.

**CONSOLIDATED FINANCIAL SUMMARY**

| Particulars (INR million) | FY23 | FY22 |
|---|---|---|
| Revenue | 8,452 | 12,725 |
| Operating EBITDA | 1,112 | 1,715 |
| EBITDA margin (%) | 13.2 | 13.5 |
| Net leverage (x) | 1.3 | 1.5 |
| Interest coverage (x) | 5.2 | 10.0 |
| Source: Ind-Ra, VIL, VEL | | |

**STANDALONE FINANCIAL SUMMARY**

| Particulars (INR million) | FY23 | FY22 |
|---|---|---|
| Revenue | 5,475 | 9,288 |
| Operating EBITDA | 123 | 90 |

| | | |
|---|---|---|
| EBITDA margin (%) | 2.25 | 1.0 |
| Net leverage (x) | 0.07 | 0.03 |
| Interest coverage (x) | 5.7 | 6.7 |
| Source: Ind-Ra, VEL | | |

## Non-Cooperation with previous rating agency

Not applicable

## Rating History

| Instrument Type | Rating Type | Rated Limits (million) | Current Rating/ Outlook | Historical Rating/Outlook | | | |
|---|---|---|---|---|---|---|---|
| | | | | 20 October 2023 | 7 October 2022 | 3 August 2021 | 27 July 2020 |
| Issuer rating | Long-term | - | - | WD | IND BBB+/Stable | IND BBB/Negative | IND BBB/Negative |
| Term loan | Long-term | INR115 | IND BBB+/Stable | - | IND BBB+/Stable | IND BBB/Negative | IND BBB/Negative |
| Fund-based working capital limit | Long-term/ Short-term | INR20 | IND BBB+/Stable/ IND A2 | - | IND BBB+/Stable/IND A2 | IND BBB/Negative /IND A3+ | IND BBB/Negative /IND A3+ |
| Non-fund-based working capital limit | Short-term | INR5 | IND A2 | - | IND A2 | IND A3+ | IND A3+ |

## Bank wise Facilities Details

Click here to see the details

## Complexity Level of the Instruments

| Instrument Type | Complexity Indicator |
|---|---|
| Term loan | Low |
| Fund-based working capital limits | Low |
| Non-fund-based working capital limits | Low |

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

### APPLICABLE CRITERIA

**Evaluating Corporate Governance**

**Short-Term Ratings Criteria for Non-Financial Corporates**

**Corporate Rating Methodology**

**The Rating Process**

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