RUCHI SOYA INDUSTRIES LIMITED

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities	4,250.50 [enhanced from Rs.3,731.50]	CARE BBB+ (Triple B Plus)	Revised from CARE A- (Single A Minus)
Long-term / Short-term Bank Facilities	6,478.00 [enhanced from Rs.5,260.00]	CARE BBB+ / CARE A2 (Triple B Plus / A Two)	Revised from CARE A- / CARE A2+ (Single A Minus / A Two Plus)
Total Facilities	**10,728.50**		

Rating Rationale

The revision in the ratings of Ruchi Soya Industries Limited (RSIL) takes into account continued increase in its debt level and decline in operating profitability coupled with significant exposure to volatility in forex rates on account of imports and foreign currency borrowings.

The ratings however, continue to factor in the leadership position of RSIL in the domestic edible oil market, large crushing & refining capacities with a good mix of inland and port-based crushing/refining capacities, experienced management, established marketing and distribution network, good demand for soya meal and steady demand prospect for edible oil and backward integration initiative of establishing palm plantations.

The ratings, however, continue to remain constrained due to low profitability inherent in the agro-commodity industry on account of intense competition and susceptibility of margins to volatility associated with commodity prices, interest rates and currency exchange rates. Working-capital intensive nature of the operations and change in global regulatory environment further constrain the ratings.

Improvement in profitability with ability to withstand commodity price and currency fluctuations, control over its debt level and any change in the regulatory environment are the key rating sensitivities.

Background

RSIL, incorporated in January 1986, is the flagship company of the Ruchi group, based out of Indore. The group is primarily engaged in manufacturing/processing as well as trading in the various agro commodities. RSIL is engaged in extraction of oil from soya and other oil seeds by solvent extraction method, edible oil refining of imported and domestic oils, manufacture of vanaspati, textured soya protein and other by-products. Besides it is also an importer-exporter, supply chain provider in various commodities, specifically import of edible oil and export of de-oiled cakes (DOC). RSIL has manufacturing facilities at 22 locations across India and are a good mix of inland-crushing/refining units and port-based refining units.

Credit Risk Assessment

Vulnerability of its margins due to presence in the highly volatile agro-commodity market, volatile foreign exchange rate and regulatory changes

The low profitability margins of the industry, dependence on climate factors for good harvest and high import dependence for meeting oil requirement result in vulnerability of profitability of RSIL. Further, current volatile pricing scenario and frequent change in the tariff structure of palm oil also impacts the profitability. Further, RSIL's profitability is significantly influenced by the movement in prices of soya bean seed, soya DOC, soya refined oil and other substitute oils. Over the years the soya seed prices have exhibited an increasing trend mainly due to robust domestic and export demand. The prices of soya seeds are linked to agricultural output, which in turn, is exposed to factors such as vagaries of the monsoon, acreage, yield level and global demand-supply mismatches. Further, RSIL's profitability margins are exposed to any adverse movement in exchange rate due to its high exposure on account of high import of crude edible oil, exports of DOC and foreign currency loans. During FY13, RSIL had raw material import of 54% of the total raw material consumed and had export of nearly 22% of its total operating income.

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

As on March 31, 2013, RSIL had total net forex exposure of US $ 2,262.84 million (including import, export, customer advances and loans) out of which RSIL had net un-hedged foreign currency exposure of US $ 643.36 million.

Steady scale of operation albeit declining profitability

During FY13, RSIL's total operating income grew just over 1% primary due to lower trading activity and decline in both seed crushing and oil refining capacity utilization. During FY13, the trading sales declined over 10% as against growth 75% in FY12.

Further, in the past three years ended, the PBILDT margin remained low and further declined by 28 bps during FY13 on the back of volatile forex rates and changing regulatory environment i.e. duty structure related to palm oil import. RSIL's two major segment i.e. Seed Crushing and Oil refining which together contributed 88% of its total operating income during FY13, witnessed a decline in its PBILDT margin. During FY13, the seed extraction segment reported a PBILDT margin of 4.07% as against 6.12% in FY12 whereas the refining segment reported PBILDT margin of 0.91% as against 1.14%.

However, the PAT margin improved by 42 bps mainly due to lower forex cost/loss in FY13 compared to FY12. During FY13, RSIL had net forex loss/cost of Rs.430 crore as against Rs.702 crore in FY12. During FY13, RSIL had strengthened its forex risk management policy which has resulted into lower forex loss/cost.

The leverage of the company remained high as on March 31, 2013 primary due to high utilization of non fund based limits resulting into high Letter of Credit (LC) backed creditors/ acceptances for import of palm oil. However, excluding the LC backed creditors from total debt; the leverage remained moderate at 1.49 times as on March 31, 2013. For the purpose of analysis, Fixed Deposits (FD) pledged against the borrowings have been netted off from debt.

The overall liquidity position of the company remained moderately stressed with low current ratio and elongating working capital cycle. During FY13, the working capital cycle has increased to 47 days from 36 days in FY12 due to increase in receivables days.

During Q1FY14, RSIL reported a total operating income of Rs.4,937 crore (Q1FY13: Rs.5,076 crore), PBILDT of Rs.186 crore (Rs.215 crore) and PAT of Rs.3 crore (Rs.43 crore) with PBIDLT and PAT margin of 3.78% and 0.06% respectively. During Q1FY14, there was a marginal improvement in PBILDT margin; however, volatile forex rates and duty structure related to palm oil continue to impact the net profit margins. Further, as on June 30, 2013, RSIL had Mark to Market loss of Rs.74 crore on restatement of its foreign currency liabilities which also has impacted the profitability.

High debt level on the back of successive large debt-funded capex and incremental working capital requirement

During last four years ended FY13 (FY10-FY13), RSIL has undergone capex of nearly Rs.1,474 crore which was largely funded through term loans of Rs.1,003 crore which has led to increased repayments liability in coming years. This was primary related to capacity expansion in RSIL's refining segment which has increased from 21,12,000 MTPA as on March 31, 2009 to 29,90,000 MTPA as on March 31, 2013. While the capacity utilization is yet to prick up due to adverse duty structure related to palm oil import. Further, the incremental profitability has been lower due to higher input costs and lower absorption of fixed costs on account of less optimum utilization of refining capacities. Further, on account of working capital intensive nature of operations, the working capital borrowings have also increased significantly over the same period to support the increased scale of operations and increased in commodity prices. The total debt of RSIL stood at around Rs.7,451 crore (including acceptances of Rs.3,978 crore & net of FDs) as on March 31, 2013 as against Rs.5,038 crore (including acceptances of Rs.2,444 crore) as on March 31, 2011.

Further, during FY13, RSIL has started implementing expansion project for its palm fruit crushing capacity and Guargum powder manufacturing capacity in FY14 with total investment outlay of Rs.337 crore, out of which, RSIL has already incurred Rs.137 crore till March 31, 2013. The balance of Rs.200 crore (including Rs.100 crore of routine / normal capex) is expected to be funded through term loan of Rs.140 crore and balance through internal accruals.

Experienced promoters having long-standing track record

The Chairman, Mr Kailash Shahra, has more than five decade of experience in the Soya business. He established India's first soyabean processing plant and has served as a Chairman of Soyabean Processors Association of India (SOPA), a body representing Soyabean industry in India. He is also supported by his brother Mr Dinesh Shahra, Managing Director, who is responsible for different functions in the company. Further, the top management is well supported by experienced and qualified professional team.

Established operations with largest crushing & refining capacities in India

RSIL's seed crushing and edible oil refining capacities are the largest in India with crushing capacity of 40.20 lakh Metric Tons Per Annum (MTPA) and 29.90 lakh MTPA of refining capacities along with power generation capacities of 85.3 MW as on March 31, 2013. Further, RSIL has location advantage arising from manufacturing location spread across India as well as their hinterland

and port based capacities. RSIL has manufacturing facilities spread across 22 location in India which includes five port based refineries, three standalone crushing plants, eight integrated crushing and refining plants, one refinery and vanaspati plant and two palm fruit processing units. RSIL primary engaged in processing of oil seeds and refining of crude oil, however, the company also produces food products and value added products from downstream and upstream processing. RSIL has also entered into backward integration with palm plantation across over 1,95,000 hectares. Further, RSIL had nearly 5,18,400 MTPA of palm fruit processing capacity as on March 31, 2013 which is expected to go up to 9,86,400 MTPA by March 31, 2014. This would reduce the import dependence for crude palm oil to a certain extent.

During FY13, the capacity utilization of RSIL's seed extraction (crushing) and oil refining units remained at 43% and 62% respectively as against 53% and 65% in FY12. The decline in crushing capacity utilization in FY13 was primarily on account of low availability of soya seeds. However, the refining capacity utilization declined significantly since last two year i.e. FY12 and FY13 on account of change in duty structure resulting into increased import of refined oil into India.

The refining segment contributes largest share of RSIL's total operating income followed by seed extraction. During FY13, the refining segment contributed nearly 61% in total operating income (P.Y: 68%) and seed extraction was 27% (21%). Further, the company is able to draw synergies in trading business from its presence in the agricultural value chain depending upon the available opportunities. The share of trading remained in the range of 30-35% during the past three years ended FY13.

Established marketing and distribution network with high proportion of branded sales

RSIL has an extensive distribution network, catering nationally through more than seven lakh retail outlets, 106 company depots and 5,642 distributors. RSIL leverage the synergies arising from sourcing, logistics, distribution and strong marketing presence, well spread and balanced manufacturing facilities with the presence in both the inland and port-based refining units. RSIL has different branding strategy of premium brands, value brands and mass-market brands. This positioning helps generate large sales volumes for the products. RSIL markets its products under the brand names like Nutrela, Nutrela Gold under premium category, Mahakosh, Sunrich under Value category and Ruchi Gold, Ruchi Star, Ruchi No.1 under Mass category. The share of branded segment remained high at 24% of total sales in FY13 as compared to 21% in FY12 and grew at nearly 12% in FY13.

Good demand for Indian soya meal in export market and steady demand prospects for the edible oil industry

United States, Brazil and Argentina are the chief producers and exporters of soya meal and account for over 80% of global production. India ranks fifth in the list with about 3-4% of the global production. India exported about 39 lakh tonnes of soya meal worth Rs.11,496 crore in 2012-13 registering growth of 45% over previous year in terms of value, primarily to countries like Iran, Japan, Vietnam, Thailand, France, Korea, etc. The growth in the export of soya meal was primarily supported by significant increase in soya meal prices, however, the sales volume declined by nearly 8%. Japan accounted for 15% of India's soya meal export during FY13 and has been a major export destination for the past five years. However, recently Iran has emerged as one the largest buyers of Indian soya meal and accounted for 19% of India's soya meal exports during FY13. Moreover, there is rising domestic demand from the poultry and cattle feed industry in India to meet the demand for animal protein products which also adds to the growth of the industry.

India's per capita consumption in edible oils is growing and hence the domestic demand for edible oil is estimated to move faster in the medium to long term on account of the higher disposable income.

Prospects

The prospects of RSIL would depend on improvement in profitability margins and ability to increase share of higher value-added and branded products in its sales mix. Further, RSIL's ability to manage commodity price risk and exchange rate risk shall also be crucial going forward.

Financial Performance (Standalone)

(Rs. Crore)

For the period ended / as at Mar.31,	2011	2012	2013
	(12m, Aud.)	(12m, Aud.)	(12m, Aud.)
Working Results			
Net Sales	16,452	25,786	25,859
Total operating income	16,748	26,223	26,493
PBILDT	702	888	824
Interest and Finance Cost (Gross)	260	536	369

For the period ended / as at Mar.31,	2011	2012	2013
	(12m, Aud.)	(12m, Aud.)	(12m, Aud.)
Depreciation	120	141	154
PBT	329	222	296
PAT (after deferred tax)	213	122	237
Gross cash accruals	362	^ 400	^ 368
Financial Position			
Equity capital	67	67	67
Networth	2,025	2,145	2,326
Total Debt incl. Acceptances & Bills discounted	6,187	9,012	10,367
Fixed Deposit against borrowings	1,149	2,227	2,916
Net Debt	5,038	6,784	7,451
Total capital employed	5,792	7,620	8,804
Adj. total capital employed #	4,643	5,393	5,888
Key Ratios			
Growth			
Growth in total income (%)	23.15	56.57	10.03
Growth in PAT [after deferred tax] (%)	23.62	(42.63)	93.57
Profitability			
PBILDT / Total operating income (%)	4.19	3.39	3.11
PAT / Total income (%)	1.27	0.47	0.89
ROCE (%)	12.22	11.89	8.26
Solvency			
Long-term debt equity ratio (x)	0.46	0.52	0.57
Overall gearing ratio (Incl. Acceptances) (x) #	2.49	3.16	3.20
Overall gearing ratio (Excl. Acceptances) (x) #	1.28	1.49	1.49
Interest coverage (x)	2.73	1.70	2.24
(PBILDT/Interest)			
Term debt / GCA (years)	2.60	2.73	3.43
Net debt Incl. Acceptances / GCA (years)	13.90	16.98	20.27
Net debt Excl. Acceptances / GCA (years)	7.16	8.00	9.45
Liquidity			
Current ratio (x)	1.07	1.04	1.05
Quick ratio (x)	0.67	0.67	0.75
Turnover ratio			
Avg. collection period (days)	43	43	59
Avg. inventory period (days)	51	47	50
Avg. creditors period (days)	69	54	63
Working Capital cycle (days)	25	36	47

^ Considering the unrealized/MTM forex loss/ (gain) of Rs.83 crore in FY12 and Rs.(17) crore in FY13
# Adjusting Fixed Deposits pledged against the borrowings

(This follows our brief rational for entity published on 15 October 2013)

DISCLAIMER

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

CARE is headquartered in Mumbai, with Offices all over India. The office addresses and contact numbers are given below:

HEAD OFFICE: MUMBAI

Mr. D.R. Dogra
Managing Director
Mobile : +91-98204 16002
E-mail : dr.dogra@careratings.com

Mr. Rajesh Mokashi
Dy. Managing Director
Mobile +91-98204 16001
E-mail: rajesh.mokashi@careratings.com

Ms. Meenal Sikchi
Vice President –Bank Loan & Instrument Rating
Mobile: +91-9819009839
mail: meenal.sikchi@careratings.com

Mr.Ankur Sachdeva
Vice President – Banking & Financial Services
Mobile: +91-9819698985
E-mail: ankur.sachdeva@careratings.com

CREDIT ANALYSIS & RESEARCH LTD.

HEAD OFFICE | 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022 |Tel: +91-022- 6754 3456 | E-mail: care@careratings.com | Fax: +91-022- 6754 3457.

KOLKATA | Ms. Priti Agarwal | Cell: +91-98319 67110 | Tel: +91-33- 4018 1600/ 1602 | E- mail: priti.agarwal@careratings.com | 3rd Flr., Prasad Chambers (Shagun Mall Bldg), 10A, Shakespeare Sarani, Kolkata -700 071

CHENNAI | Mr. V Pradeep Kumar | Cell: +91 9840754521 | Tel: +91-44-2849 7812/2849 0811 | Fax: +91-44-2849 0876 | Email: pradeep.kumar@careratings.com | Unit No. O-509/C, Spencer Plaza, 5th Floor, No. 769, Anna Salai, Chennai - 600 002

AHMEDABAD | Mr. Mehul Pandya | Cell: +91-98242 56265 | Tel: +91-79-40265656 | Fax: +91-79-40265657 | E-mail:mehul.pandya@careratings.com | 32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015.

NEW DELHI | Ms. Swati Agrawal | Cell: +91-98117 45677 | Tel: +91-11-2331 8701/ 2371 6199 | E-mail: swati.agrawal@careratings.com | 3rd Floor, B -47, Inner Circle, Near Plaza Cinema, Connaught Place, New Delhi - 110 001.

BENGALURU | Mr. Dinesh Sharma | Cell: +91 9900041975 | Tel: +080-4115 0445/ 4165 4529| Tele fax: 080-41514599 | E-mail: dinesh.sharma@careratings.com | Unit No.1101-1102, 11th Floor, Prestige Meridian II No-30, M .G. Road, Bengaluru -560001.

HYDERABAD | Mr. Saikat Roy |Tel: +91-40-40102030 |E-mail: saikat. roy@careratings.com | 401, Ashoka Scintilla | 3-6-520, Himayat Nagar | Hyderabad - 500 029.

PUNE | Mr. Rahul Patni | Cell: +91-78754 33355 | Tel: +91-20- 4000 9000 |E-mail: rahul.patni@careratings.com | 9th Floor, Pride Kumar Senate, Plot No. 970, Bhamburda, Senapati Bapat Road, Shivaji Nagar, Pune - 411 015.

JAIPUR| Mr. Rahul Jain | Cell: +91-9314921496 | Tel: +91-0141-4020213/14 |E-mail: rahul.jain@careratings.com | 304, Pashupati Akshat Heights, Plot No. D-91, Madho Singh Road, Near Collectorate Circle, Bani Park , Jaipur – 302016.