Vippy Industries Limited

March 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00 (Reduced from 13.00)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	87.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Total Bank Facilities	**97.00 (Rs. Ninety-Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vippy Industries Limited (VIL) continue to derive strength from the vast experience of its promoters in the edible oil and soya meal industry, established track record of operation along with proximity to raw material procuring area and strong product portfolio of non-genetically modified (non-GMO) soya products with focus on value added products. The ratings continue to factor its growing scale of operations, adequate liquidity and comfortable leverage albeit there is some moderation in its debt coverage indicators with increase in working capital debt levels.

The ratings, however, continue to remain constrained on account of its thin profitability which had exhibited declining trend in last two years ended FY21 (FY refers the period from April 1 to March 31) and 9MFY22, large inventory holding requirement due to seasonality associated with availability of soya bean seeds, susceptibility of its profitability to volatile agro-commodity prices, foreign exchange fluctuation risk and presence of the company in highly competitive soya meal and edible oil industry.

Rating Sensitivities

Positive Factors – Factors that could lead to positive rating action/upgrade:

- Significant growth in scale of operations through increased portfolio of value-added products and thereby increasing profit before, interest, lease, depreciation and tax (PBILDT) margin beyond 7% on sustained basis

Negative Factors - Factors that could lead to negative rating action/downgrade:

- Any major debt funded capex or high working capital debt leading to deterioration in overall gearing to more than 1x
- Significant increase in the inventory holding level without adequate hedging
- Significant decline in PBILDT margin resulting in lower than envisaged cash accruals

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters in the solvent extraction industry

VIL is managed by Mr. Rahul Mutha and Mr. Praneet Mutha in the capacity of Managing Director and Joint Managing Director respectively. Mr Rahul Mutha has more than three decades long experience while Mr Praneet Mutha has more than two decades of experience in the field of solvent extraction industry and they have strengthened the company's position as a producer of value-added soya products like defatted soya flour, soya grits and flakes for export as well as domestic market.

Established operation of the company with proximity to the raw material procuring area

VIL has established track record of over four decades in the solvent extraction and edible refining business. It has established its operation in 1973 followed by major technological up-gradation of its plant and machinery in 1995-96. It had since then successfully built its diversified portfolio of value added non-genetically modified (non-GMO) soya products. Over the past few year it has also added new soya-based value added products to its product portfolio. VIL is based out of Madhya Pradesh, the largest soya bean producing state in India, which makes it easier to procure quality soya seeds. It has tie-ups with farmers which enables it to procure soya seeds at low cost without any middlemen/intermediary as well as it is also geographically closer to local mandis selling soya seeds.

Strong product portfolio with diversified customer base

VIL crushes non-GMO soya bean seeds to extract crude soya oil and non-GMO soya value added products such as soya de-oiled cake (DOC), soya grits, soya flour, soya flakes, soya chunks, soya hulls, refined edible soya oil, soya lecithin and soya fatty acid. It refines crude soya oil which it sells in bulk as well as under its own brand name "VAMA". In FY21, sale of DOC, refined oil and value-added products contributed 22%, 29% and 26% respectively (FY20: 31%, 41% and 19%) while lecithin and other by-products (including trading sales) contributed 23% to total operating income (TOI) (FY20: 9%). VIL had also introduced new products like Amipro (cattle feeds), Soypro (animal feed) and Promunch (ready to eat snack) to increase its product basket of

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

value-added products. VIL has established and diversified customer base in domestic as well as export market with top 10 customers contributing 23% in FY21 (FY20:28%). Currently, the company is regularly exporting value added non-GMO Soya products to more than 40 countries across the globe with export forming 20% of net sales in FY21 (FY20: 16%).

Significant growth in scale of operation

TOI of VIL exhibited strong growth of 48.61% from Rs.1108.58 crore during FY20 to Rs.1647.45 crore during FY21 on the back of increase in sales volume as well as increase in the avg. sales realization on the back of increase in input prices. Overall sales volume grew by 19% (excluding trading sales and by-product) during FY21 on y-o-y basis. During FY21, VIL had also undertaken trading activity which also contributed to its growth in TOI. On value terms, domestic sales grew by 42% and export sales grew by 87% during FY21 on y-o-y basis.
TOI further grew to Rs.1866.72 crore during 9MFY22 (9MFY21: Rs.956.26 crore) on the back of sales volume growth (~32% on y-o-y basis) along with improvement in the avg. sales realization on y-o-y basis.

Comfortable capital structure; albeit moderation in its debt coverage indicators

VIL continues to have comfortable capital structure marked by overall gearing 0.85x as on March 31, 2021 as compared with 0.57x as on March 31, 2020. Moderation in the overall gearing was on the back of increase in the total debt of VIL to support its increase in working capital requirement (to fund the increase in the total inventory as well as debtors). Total outside liability to tangible net-worth too remained moderate at 1.02x as on March 31, 2021 (0.72 as on March 31, 2020). VIL had liquid investments (free cash and bank balance as well as lien marked FD balance) of Rs.64.54 crore as on March 31, 2021 as compared to Rs.138.17 crore as on March 31, 2020 to fund working capital resulting in increase in the net debt from Rs.19.45 crore as on March 31, 2020 to Rs.192.18 crore as on March 31, 2021. Total debt of VIL however, moderated as on December 31, 2021 as compared to March 31, 2021 level. With increase in total debt levels, VIL's debt coverage indicator i.e. total debt to gross cash accruals (TDGCA) and total debt to PBILDT moderated from 4.60x and 3.18x respectively during FY20 to 8.30x and 6.67x respectively during FY21. However, with moderation in the total debt level as on December 31, 2021, debt coverage indicators improved as compared to FY21 level. PBILDT interest coverage ratio remained comfortable at 5.26x during FY21 (FY20: 9.89x).

Key Rating Weaknesses

Thin profitability which had exhibited a declining trend in last two years ended FY21 and 9MFY22

PBILDT margin of VIL declined significantly by 214 bps from 4.47% during FY20 to 2.34% during FY21. For 9MFY22, PBILDT margin remained largely in line with FY21 level. The moderation in PBILDT margin was due to significant increase in the raw material prices as well as increase in the selling expense (due to increase in the freight cost) which company was unable to pass on fully to end customer (including soya meal) and higher base effect. Avg. soyabean prices in the domestic market had shown increasing trend from ~Rs.37 per kg March 2020 to ~Rs.50-55 per kg in March 2021 and ~Rs.s.90-95 per kg in August 2021. PBILDT margin of VIL were also impacted by low margin trading sales during FY21 and 9MFY22. With decline at PBILDT level and moderate increase in the interest and finance cost, PAT margin too declined during FY21 on y-o-y basis.

Large inventory holding requirement with seasonality associated with soya bean seeds

Soya bean seed is generally available from the onset of the harvesting season, viz, October till January and is procured locally from different mandis through commission agents and traders as well as from farmers. VIL's requirement of working capital is influenced by the seasonal availability and quality of soya bean seeds, which is generally high during peak season as well as crop prospect in the major soya bean growing countries across the globe. VIL funds its working capital requirement through own funds and through bank borrowings in the form of overdraft against fixed deposit as well as availing fund based working capital limits from banks. Apart from these, VIL had also availed short term loan during FY21 and 9MFY22 to fund its working capital requirement. Its operating cycle moderately elongated to 65 days in FY21 (FY20: 61 days). As on March 31, 2021, VIL had total inventory of Rs.285.96 crore as compared with Rs.190.05 crore as on March 31, 2020.

Susceptibility of profitability to volatile raw material prices and foreign exchange fluctuation risk

VIL uses soya seeds and soya crude oil as its major raw material whose prices are determined based on demand and supply of soya seeds, which in turn depends upon rainfall, area under cultivation and government policies like minimum support price, import/export duty, etc. Prices are also susceptible to the international demand-supply gap and weather conditions in major soya growing nations such as USA, Brazil, China, India and Argentina.
As articulated by management, VIL follows adequate hedging policy to manage its export receivables as well as commodity risk. However, any inventory holding practice in the absence of adequate hedging poses a significant risk to its profitability in case of adverse price movement of raw material. Further, during FY21, VIL derived nearly 20% of its revenue (FY20: 16%) from exports whereas the import on the other side is negligible. Hence, VIL is a net exporter and is exposed to adverse fluctuation in foreign currency exchange risk. However, the same is partially mitigated by the fact that VIL generally enters into derivative contract as per company's hedging policy.

Risk related to price disparity between domestic soya bean seed and international soya DOC price along with presence in the competitive soya edible oil industry

Prospects of soya meal industry in India is significantly dependent on the price differential between the domestic soya bean seeds prices and international soya DOC prices. Since last few years soya meal export from India was significantly affected due to price disparity between domestic soya bean seeds prices and soya DOC prices in the international market. Total exports of soya meal from India grew from 0.69 million metric tonnes (MT) during FY20 to 1.56 million MT during FY21 (as per Solvent

Extraction Association of India). However, during 9MFY22, total exports of soya meal from India registered a de-growth of 71% on y-o-y basis on the back of high soyabean seeds prices in the domestic market impacting export price parity. Indian edible oil industry is highly competitive due to low entry barriers and low capital intensity. Thus, profitability is inherently thin and is further exposed to movement in raw material prices. The demand dynamics of the industry to an extent are also affected by the price differentials among edible oil variety like palm oil, sunflower oil, ground nut oil and cotton seed oil among others. However, with increase in brand awareness, health consciousness and penetration of organized retail, the size of the branded edible oil industry is likely to increase, which would provide more pricing power to the branded players.

Liquidity: Adequate
VIL had adequate liquidity marked by stable cash generation, low repayment obligation and low working capital utilization. It is expected to earn GCA of Rs.40-45 crore for FY22 whereas it had low total debt repayment obligation of Rs.3.32 crore. Avg. fund based working capital utilization (excluding OD limit utilization) remained low at 56.05% for past 12 months ended December 31, 2021. Its liquidity is also supported by liquid investment of Rs.64.54 crore as on March 31, 2021 (out of which Rs.57.10 crore is lien marked against working capital limits). Despite moderation, current ratio and quick ratio remained moderate at 1.87x and 0.87x respectively as on March 31, 2021 as compared with 2.20x and 1.13x respectively as on March 31, 2020. Cash flow from operation was negative at Rs.171.69 crore during FY21 due to significant increase in the total inventory as well as receivables as on March 31, 2021.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company
Established in 1973 as Vippy Solvex Private Limited, VIL (CIN: U15142MP1973PLC001225) is manufacturer and exporter of nongenetically modified (GMO) soya products. VIL is engaged in the extraction of soya oil from soya seeds, refining of crude soya oil and manufacturing of value-added soya-based products. The main products of VIL include refined soya oil, soya DOC, soya flakes, soya grits, soya floor, textured soya protein and soya lecithin which have application in food, feed, pharmaceutical and other industrial applications. VIL's manufacturing plant is located at Dewas, Madhya Pradesh (MP) with a solvent extraction capacity of 4,12,500 metric tonne per annum (MTPA) and oil refining capacity of 1,02,500 MTPA as on March 31, 2021.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov.)
Total operating income	1,108.58	1,647.45	1866.72
PBILDT	49.59	38.50	N.A.
PAT	30.00	24.42	N.A.
Overall gearing (times)	0.57	0.85	N.A.
Interest coverage (times)	9.89	5.26	N.A.

A: Audited; Prov.: Provisional; N.A.: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure- 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	87.00	CARE A-; Stable / CARE A2+
Fund-based - LT-Term Loan	-	-	-	July 2025	10.00	CARE A-; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	87.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (04-Mar-21)	1)CARE A-; Stable / CARE A2+ (24-Feb-20)	1)CARE A-; Stable / CARE A2+ (04-Mar-19)
2	Fund-based - LT-Term Loan	LT	10.00	CARE A-; Stable	-	1)CARE A-; Stable (04-Mar-21)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Contact no.: +91-22-6754 3573
Email ID: mradul.mishra@careedge.in

Analyst Contact
Name: Akhil Goyal
Contact no.: 8511190015
Email ID: akhil.goyal@careedge.in

Relationship Contact
Name: Deepak Purshottambhai Prajapati
Contact no.: +91-79-4026 5656
Email ID: deepak.prajapati@careedge.in

About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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