Vijay Solvex Limited

January 06, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	37.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	83.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
Total Facilities	120.00 (Rs. One Hundred Twenty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to bank facilities of Vijay Solvex Limited (VSL) is on account of improvement in the financial performance of the company in terms of Total Operating Income (TOI), profitability, capital structure and debt coverage indicators in FY20 (refers to the period from April 01 to March 31) and H1FY21 on y-o-y basis.

The ratings continue to derive strength from vast experience of promoters in edible oil industry and stable demand outlook for edible oil and De-Oiled cake (DOC). The ratings further draw strength from strategic location of its processing units with proximity to raw material source along with moderate capital structure and debt coverage indicators.

The ratings, however, remained constrained due to its presence in highly fragmented and competitive oil industry with threat from cheap imports and moderate profitability margins. The ratings are further constrained on account of vulnerability of profitability margins to fluctuations in the raw material prices and foreign exchange rate.

Rating Sensitivities

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

- Substantial growth in scale of operations with improvement in PBILDT margin beyond 4.00% on sustained basis
- Improvement in debt coverage indicators with total debt to GCA going below 3 times and PBILDT interest coverage of more than 5 times on sustained basis
- Improvement in capital structure with overall gearing going below 0.50 times on sustained basis

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

- Decline in TOI by more than 30% from envisaged level and fall in PBILDT margin below 2.25% on sustained basis
- Overall gearing deteriorating beyond 1.00 times on sustained basis.
- Any adverse outcome of pending litigations against company

Detailed description of the key rating drivers

Key Rating Strengths

Growing scale of operations with improvement in profitability though the same remained moderate: Total Operating Income of VSL increased by 18.13% to Rs.1451.62 crore on account of increase in sales volume of its products following increase in their demand in domestic market. TOI also increased from Rs.693.73 core in H1FY20 to Rs.929.25 crore in H1FY21. Further, profitability margins of the company improved with PBILDT margin and PAT margin of 2.71% and 1.41% respectively in FY20 as against 2.34% and 1.04% respectively in FY19; improved due to lower power and fuel cost. Furthermore, PBILDT margin and PAT margin of VSL improved to 3.35% and 2.30% respectively in H1FY21 due to gain earned on account of foreign currency fluctuation. Further, gross cash accruals (GCA) of the company increased by 54.86% to Rs.22.57 crore in FY20 with increase in scale of operations and improvement in profitability margins. Further, the company's GCA improved from Rs.8.57 crore in H1FY20 to Rs.22.20 crore in H1FY21.

Improvement in capital structure and debt coverage indicators: The capital structure of VSL continued to remain moderate with an overall gearing of 0.55 times as on March 31, 2020; improved from 0.63 times as on March 31, 2019 on account of accretion of profit to reserves. Further, debt coverage indicators also improved with improvement in PBILDT interest coverage from 3.59 times in FY19 to 3.87 times in FY20 due to higher increase in operating profitability vis-à-vis interest expenses despite incurring higher foreign exchange losses on foreign currency payables in FY20. Total debt to GCA of the company improved from 5.50 times as on March 31, 2019 to 3.60 times as on March 31, 2020 on account of higher gross cash accruals. The company has reported improvement in overall gearing to 0.45 times (0.57 times as on September 30,

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

2019) and total debt to GCA (annualized) to 1.72 times (4.50 times as on September 30, 2019) as on September 30, 2020 on year on year basis. Further, PBILDT interest coverage improved to 17.16 times (3.95 times in H1FY20) in H1FY21 on year on year basis. However, upon adjusting group exposure from the net worth, the overall gearing deteriorates to 0.87 times (1.09 times as on March 31, 2019) as on March 31, 2020.

Wide experience of promoters in edible oil industry and operational synergies with group entities: Being part of Nirajan Lal Data group (NLDG), top management of VSL has developed significant experience in edible oil industry. Mr Vijay Data, Managing Director, has more than three decades of experience in edible oil industry and looks after day to day operations of edible oil division. Mr. Daya Kishan Data, whole time director and Mechanical Engineer by qualification, has more than two decades of experience in ceramic industry. He looks after ceramic division of the company. The company along with DVPL also derives operational synergy with DOS, one of the group entities. VSL purchases mustard oil cake from DVPL and DOS whereas DVPL and DOS purchase crude and refined oil from VSL. DVPL also outsources refining of the crude soya oil to VSL.

Stable demand outlook for edible oils and DOC: The consumption of edible oil in India has been rising steadily which can be attributed mainly to increasing population, better standard of living, and growth in demand for fried processed food products. Further, limited availability of oil seeds and shifting of acreage to other crops have resulted in continuous demand supply gap for edible oil. India's annual per capita consumption is well below the world average; thus signifying substantial growth potential for the edible oil industry. The transition phase of this growing demand is also triggered by rise in the branded packaged edible oil. The Indian edible oil market continues to be underpenetrated, and given the positive macro and demographic fundamentals, it has a stable demand growth outlook over the medium-to-long term

There is huge dependence on imports and currently more than 60% of domestic edible oil requirements are met through imports. Although, overall import of edible oil reduced by 11% to 9.5 million tonnes during November 2019 – July 2020, import of soybean oil and sunflower oil increased by 19% and 15% respectively following spurt in demand from household segment. Reduction in overall imports of edible oil was mainly due to decrease in import of RBD Palmolein by 82% following decrease in demand from bulk consumer segment post nation-wide lockdown. Indian edible oil industry is susceptible to the policies of the exporting countries (mainly Indonesia and Malaysia) as well as the custom duty in India, mainly to counter the impact of regulatory changes in the exporting countries and safeguard the interest of domestic oilseed producers as well as refiners. The government has been revising the import duty on different varieties of edible oil consecutively in order to protect the country from cheap edible oil imports and to enhance domestic production of edible oils which is normally range bound.

Further, India is a major participant in the export market for DOC and is one of the largest exporters of DOC from Asia. Proximity to South-East Asian markets has provided the benefit of cheaper freight and faster reach for Indian exporters. Moreover, there is rising domestic demand for DOC from the poultry and cattle feed industry in India to meet the demand for animal protein products.

Strategic location of manufacturing units with proximity to raw material sources: VSL's processing facilities are located at Alwar, Rajasthan, strategically located in one of the largest mustard producing regions of India which makes it easier for the company to access its primary raw material. The promoters of VSL have developed good business relations with the suppliers (nearby mandis and extractors) from whom it procures its requirement of mustard seeds and oil cakes. Due to the proximity to raw material (mustard seed and Mustard Oil Cake) producing region, VSL has access to mustard seeds and oil cakes throughout the year which makes it possible for VSL to provide oil and DOC on demand to its customers. However, the company also imports crude soya oil through Kandla port (Gujarat) which is located at a long distance from VSL's plants.

Key Rating Weaknesses

High fragmentation and competition among domestic participants due to low entry barriers within edible oils and threat from cheap imports: The Indian edible oil industry is highly fragmented with large number of players operating in organized and unorganized market attributable to low entry barriers such as low capital and low technical requirements of the business and a liberal policy regime. Further, weak harvests, volatility in prices and forex movements also impact profitability margins of players operating in the industry.

The government time to time revises the import duties and import tariffs on crude and refined edible oils in order to protect interest of domestic extractors and refineries. Import duty on crude soybean oil remained at 35% whereas the same was at 45% for refined soybean oil as on November 27, 2020. Since, VSL is major importer of crude soybean oil, any adverse change in import duty by the government would increase cost of raw material for the company which alongwith no change in sales realisation can impact its profitability margins.

Vulnerability of profitability to volatility in prices of raw materials and foreign exchange fluctuations: VSL uses mustard seeds and oil cakes as the key raw material for the extraction process whereas crude oil extracted from mustard oil cakes and imported crude soya oil are used as key raw material for refined mustard oil and blended soya oil respectively. Furthermore, mustard seeds being an agricultural commodity, prices to a certain extent are affected by various factors like monsoon during the year, area under cultivation, global pricing scenario (linked to global demand supply) and government policies leading to volatility in the same. Furthermore, profitability is vulnerable to the movement in the prices of mustard based

products like mustard seeds, mustard oil cake and mustard DOC, mustard refined oil and other substitute oils, since edible oil is a price-sensitive product.
Further, VSL imports crude soya oil mainly from Argentina and Brazil with imports constituting around 13% (25% in FY19) of raw material consumption cost in FY20. The company does not have any active hedging policy for foreign currency payables; however, it uses foreign exchange forward contracts to mitigate exposure in foreign currency risk to some extent. Hence, profitability of the company is exposed to any adverse movement in foreign exchange rates on unhedged portion. VSL incurred foreign exchange loss of Rs.5.81 crore in FY20 as against Rs.3.50 crore FY19. However, VSL has earned foreign exchange gain of Rs.5.88 crore in H1FY21. Further, the company does not have any active hedging policy for commodity price fluctuation which exposes its profitability margins to adverse movement in price of its products. However, it does take positions on commodity exchange depending upon movement in prices of underlying commodity.
Pending litigations against the company: As articulated by the management, VSL is the registered owner of 'Scooter' trademark/device/logo and copyright holder for the artwork of SCOOTER Wavy device which is registered with Registrar of Trade Mark and Copyright and is defending its right before the Hon'ble Courts and Tribunals, wherever the challenges against use of 'Scooter' and /or any other intellectual property rights of the Company have been made. Further, during FY10, some shareholders had moved petition before National Company Law Tribunal (NCLT; erstwhile Company Law Board) under Section 397-398 of the Companies Act, 1956 for mismanagement of affairs of the company. The said case is still subjudice before the Hon'ble National Company Law Tribunal, Jaipur/Kolkata which is yet to be heard finally by the NCLT. As per the management, issues raised in the petition are baseless and it will not have any financial implication on the company. However, final outcome of pending litigations against the company would remain key monitorable.

Liquidity Indicators
Liquidity – Adequate: Liquidity of VSL remained adequate marked by healthy gross cash accruals of Rs.22.57 crore in FY20 with no major long-term debt repayments except finance lease obligation of Rs.0.29 crore in FY21. As on March 31, 2020, the company had free cash and bank balance of Rs.1.23 crore which increased to Rs.4.50 crore as on September 30, 2020. Although, average utilisation of fund based limits stood low at 17.74% for last 12 months ending November, 2020, utilisation of non-fund based limits remained full during the same period. The company imports crude soya oil against LC. During FY20 and H1FY21, it availed additional LC limits against 100% FDR margins for import of crude soya oil. This resulted into increase in level of inventory from Rs.32.95 crore as on March 31, 2020 to Rs.70.68 crore as on September 30, 2020. The operating cycle of the company stood short at -1 days in FY20; reduced from 14 days in FY20 on account of decrease in average inventory holding period and collection period with increase in scale of operations as well as increase in creditors' period due to higher acceptances outstanding as on March 31, 2020. On account of classification of fixed deposit, against which the company has availed LC limits, as non-current investments, current ratio deteriorated from 1.39 times as on March 31, 2019 to 1.05 times as on March 31, 2020 . During FY20, the company generated cash flow of Rs.72.80 crore from operating activities as against Rs.73.36 crore in FY19.
Impact of COVID-19 pandemic
Edible oil was classified as 'Essential Item' by the government during the nationwide lockdown. Consequently, all the plants of VSL were operational even during the lockdown period with usual capacity and manpower. The group did not face any issue with respect to labour availability and logistics for any of its plant. Moreover, the company has not availed moratorium on its debt servicing obligation.

Analytical approach: Standalone. VSL has other group entities which are engaged in same line of business and have strong operational linkages. However, CARE has not combined financials of group entities with that of VSL as it is a listed company and other group entities are privately held.
Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments

About the Company
Alwar (Rajasthan) based Vijay Solvex Limited (VSL) was incorporated in 1987 by Mr. Niranjan Lal Data and family. VSL is the flagship company of Niranjan Lal Data group (NLDG) and is engaged in processing of crude and refined edible oil, Vanaspati Ghee and mustard oil cake from mustard seeds. The company sells De-oiled cake (DOC); a by-product produced through further processing of mustard oil cake. The company also sells refined blended edible oils. VSL is also engaged in wind power generation, manufacturing of fine bone china crockery and High Tension (HT) porcelain insulators. The solvent extraction plant and refinery of the company are located in Alwar (Rajasthan) and have solvent extraction capacity of around 147,000

Tonnes per Annum (TPA) and refining & vanaspati ghee manufacturing capacity of 105,000 TPA. Manufacturing facilities for Ceramic division is located in Jaipur whereas Wind mill is installed in Jaisalmer, Rajasthan with power generation capacity of 2.30 Megawatt (MW). The group sells edible oil in the domestic market through more than 150 distributors mainly in North East, Bihar, Rajasthan, Haryana and Delhi under the established brand names of 'Scooter', 'Chancellor', 'Oligo', 'Shiv,' 'Sikandar', 'Neeraj' and 'Hanuman'.
NLDG has also promoted Deepak Vegpro Private Limited (DVPL, rated CARE BBB-; Stable/CARE A3) and Data Oils (DOS, Partnership concern) which are engaged in similar line of business.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1228.87	1451.62
PBILDT	28.69	39.39
PAT	12.73	20.52
Overall gearing (times)	0.63	0.55
Interest coverage (times)	3.59	3.87

A: Audited

During H1FY21, VSL reported TOI of Rs.929.25 crore with PAT of Rs.21.17 crore as against TOI of Rs.693.73 crore with a PAT of Rs.7.79 crore during H1FY20.

Status of non-cooperation with previous CRA: None

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	37.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	73.00	CARE A3+
Fund-based - ST-Term loan	-	-	-	10.00	CARE A3+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (31-Dec-19) 2)CARE BBB-; Stable (04-Apr-19)	-	1)CARE BBB-; Stable (14-Mar-18)
2.	Non-fund-based - ST-Letter of credit	ST	73.00	CARE A3+	-	1)CARE A3 (31-Dec-19) 2)CARE A3 (04-Apr-19)	-	1)CARE A3 (14-Mar-18)
3.	Fund-based - ST-Term loan	ST	10.00	CARE A3+	-	1)CARE A3 (31-Dec-19) 2)CARE A3 (04-Apr-19)	-	1)CARE A3 (14-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – N/A

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - ST-Term loan	Simple
3.	Non-fund-based - ST-Letter of credit	Simple

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

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