

Vijay Solvex Limited

February 08, 2022

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	50.00 (Enhanced from 37.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	120.00 (Enhanced from 83.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	170.00 (Rs. One Hundred Seventy Crore Only)		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Vijay Solvex Limited (VSL) continue to derive strength from wide experience of its promoters in edible oil industry coupled with its operational synergies with group entities, its growing scale of operations, comfortable capital structure and debt coverage indicators. The ratings also factors in stable demand outlook for edible oil and de-oiled cake (DOC) and strategic location of its manufacturing unit with proximity to raw material sources.

The ratings, however, remained constrained on account of 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 while sustaining PBILDT margin beyond 4.00%
- Sustaining its capital structure with overall gearing going below 0.50 times

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

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 and looks after ceramic division of the company. VSL has operational synergies with its group entities, viz., Deepak Vegpro Private Limited (DVPL, Rated: CARE BBB-; Stable / CARE A3) and Data Oils (DOS). VSL purchases mustard oil cake and crude soyabean from DVPL and DOS whereas sales refined oil to DVPL and DOS. Currently, DVPL and DOS met around 50% of VSL's requirement for DOC and crude mustard oil and rest is procured from others.

Growing scale of operations

Total Operating Income of VSL increased by around 43% Y-o-Y, though remained moderate at Rs.2082.93 crore on account of increase in sales volume of vegetable oils as well as increase in sales realization with increased raw materials prices following increase in their demand in domestic market. Edible oil segment of the company remained dominant segment marked by its 99% contribution in total sales in FY21 as well as H1FY22. Around 50% of edible oils comprised of blended oil.

Comfortable capital structure and debt coverage indicators

The capital structure of VSL remained comfortable with an overall gearing of 0.47 times as on March 31, 2021 which improved on y-o-y on with accretion of profits. VSL has proposed enhancement in its fund based working capital limits to the tune of Rs.23 crore and Rs.37 crore for its non-fund-based limits with existing banker to support its growing scale of operations. Further, debt coverage indicators of the company improved on the back of substantial increase in PBILDT, and subsequently, GCA and remained comfortable marked by interest coverage ratio of 29.41 times and total debt to GCA of 1.74 times in year ended on March 31, 2021.

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

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE publications

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.

Stable demand outlook for edible oils and DOC

Edible oils and Fats are essential ingredients for a wholesome and balanced diet and are vital items of mass consumption. Out of the total requirement, it is estimated that about half is produced domestically from primary (Soybean, Rapeseed & Mustard, Groundnut, Sunflower, Safflower & Niger) and secondary sources (Oil palm, Coconut, Rice Bran, Cotton Seeds & Tree Borne Oilseeds) and remaining is met through import as domestic production of edible oils is unable to meet domestic demand. The total availability of edible oils from all sources (primary and secondary) for 2019-20 is estimated at 106.55 lakh metric ton (LMT) as against 103.52 LMT in 2018-19, however, the gap between demand and supply is about 56% and is met through imports.

India is the fourth largest consumer of edible oils after USA, China and Brazil. The per capita consumption of edible oil in India, although growing steadily, is much lower than global average. Thus, the underpenetrated market coupled with positive macro and demographic fundamentals like growing population, increasing disposable income, changing tastes and preferences of consumers, shifting consumption pattern towards branded oils and consistent marketing and distribution initiatives is driving edible oil consumption in the country.

Key Rating Weaknesses

Moderate Profitability

Profitability of the company had improved in FY21 and remained at moderate level marked by PBILDT margin and PAT margin of 4.40% and 3.09% respectively as against 2.71% and 1.41% respectively in FY20 due to inventory gain in inflationary environment with significantly higher post-Covid-pent-up consumer demand in FY21. However, profitability is expected to be moderated in FY22 and remain in range of 3%-4%.

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. There is also presence of large integrated players such as Adani Wilmar Ltd (CARE A+; Stable/CARE A1+), Ruchi Soya Industries Ltd, Emami Agrotech Ltd (CARE A-; Stable/CARE A2+), Marico Ltd. etc. having a sizeable oil processing and packaging scale with wide distribution network with logistics and supply chain capability.

Also, imported oil from overseas market posed further competition for domestic edible oil players, however, 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. On other hand, 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 and can impact 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 (directly as well as through group entities). 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 gain of Rs.5.61 crore in FY21 as against foreign exchange loss Rs.5.81 crore FY20.

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. Furthermore, the company has outstanding receivable of Rs.0.80 crore held with enforcement directorate, against matter pending before Appellate Authority (PMLA) New Delhi under Prevention of Money Laundering Act, 2002 (PMLA).

Liquidity: Adequate

VSL's liquidity remained adequate marked by low utilization of its fund-based working capital limits, though non-fund based working capital limits utilization remained high, healthy cash accruals against low debt repayments coupled with healthy liquid investments in form of short-term bank FDs as margin money.

Further, the company expects to generate cash accruals of Rs.44-50 crore during FY22 as against no major capex planned. Average utilization of its fund-based working capital limits remained low at around 13% p.a. for last 12 months ending November, 2021, however, utilization of non-fund-based limits remained high at around 88% p.a. during the same period. As a result, operating cycle of the company stood lean at 4 days in FY21 owing to high LC backed acceptance (which the company used against import of crude soyabean oil) as on balance sheet date. Current ratio of the company remained moderate 1.32 times as on March 31, 2021. During FY21, the company reported negative cash flow from operations of Rs.52.72 crore owing to increase in inventory coupled with decrease in creditors as on March 31, 2021. Short term investments including bank FDs in form of margin money as well as unencumbered cash and bank balance remained at Rs.81.24 crore as on March 31, 2021.

Analytical Approach: Standalone with factored in operational linkages with group companies (i.e. DVPL and DOS). 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:

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[Factoring Linkages Parent Sub JV Group](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial Ratios - Non-Financial Sector](#)

[Criteria for short term instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

Alwar (Rajasthan) based VSL (CIN: L15142RJ1987PLC004232) was incorporated in 1987 by Mr. Niranjana Lal Data and family and it is the flagship company of Niranjana 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. 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 as on March 31, 2021. 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'.

VSL is also engaged in wind power generation, manufacturing of fine bone china crockery and High Tension (HT) porcelain insulators. 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).

Group has also promoted Deepak Vegpro Private Limited (DVPL, rated CARE BBB-; Stable/CARE A3) and Data Oils (DOS, Partnership concern), engaged manufacturing of mustard oil and trading of crude and refined edible oil with operational linkages with VSL.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	1451.62	2082.93	1286.34
PBILDT	39.39	91.73	43.47
PAT	20.52	64.26	30.42
Overall gearing (times)	0.58	0.55	0.42
Interest coverage (times)	3.87	29.41	24.56

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated September 28, 2012 on account of non-cooperation by VSL with CRISIL's efforts to undertake a review of the outstanding ratings.

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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

Annexure-1: Details of 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-Cash Credit	-	-	-	-	50.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	-	100.00	CARE A3+
Fund-based - ST-Term loan	-	-	-	-	20.00	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 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-Cash Credit	LT	50.00	CARE BBB; Stable	1)CARE BBB; Stable (06-Jan-22)	1)CARE BBB; Stable (06-Jan-21)	1)CARE BBB-; Stable (31-Dec-19) 2)CARE BBB-; Stable (04-Apr-19)	-
2	Non-fund-based - ST-Letter of credit	ST	100.00	CARE A3+	1)CARE A3+ (06-Jan-22)	1)CARE A3+ (06-Jan-21)	1)CARE A3 (31-Dec-19) 2)CARE A3 (04-Apr-19)	-
3	Fund-based - ST-Term loan	ST	20.00	CARE A3+	1)CARE A3+ (06-Jan-22)	1)CARE A3+ (06-Jan-21)	1)CARE A3 (31-Dec-19) 2)CARE A3 (04-Apr-19)	-

Annexure-3: Detailed explanation of covenants of the rated facilities:

Bank Facilities	Detailed explanation	
A. Financial covenants	VSL to maintain followings:	
	Covenant	Threshold
	Overall Gearing	<=1.75
	Current Ratio	>=1.10
B. Non financial covenants		
	1. Effect any drastic change in their management setup.	

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

Sr. No	Name of 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

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 has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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