Vippy Industries Limited

March 15, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	7.00	CARE A-; Negative	Reaffirmed
Long-term / Short-term bank facilities	180.00 (Enhanced from 90.00)	CARE A-; Negative / CARE A2+	Reaffirmed
Short-term bank facilities	20.00	CARE A2+	Assigned

Details of instruments/facilities in Annexure-1

Rationale and 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 the value-added products. The ratings continue to factor its growing scale of operations, adequate liquidity and comfortable leverage and moderate debt coverage indicators.

The ratings, however, continue to remain constrained on account of its thin profitability which had exhibited declining trend in last three years ended FY22 (refers to the period from April 1 to March 31) and 9MFY23, large inventory holding requirement due to seasonality associated with availability of soyabean 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: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Any major debt-funded capex leading to deterioration in the net overall gearing (adjusted for total debt less cash and bank including liquid investments) to more than 0.60x on a sustained basis.
- Significant increase in the inventory holding level resulting in operating cycle beyond 90 days.
- Significant decline in PBILDT margin resulting in lower-than-envisaged cash accruals and deterioration in net debt / gross cash accruals (GCA) level beyond 6x on a sustained basis.

Analytical approach: Standalone

Outlook: Negative

The outlook assigned to the long-term bank facilities of VIL has been revised from 'Stable' to 'Negative' on account of expectation of continued pressure on profitability, return on capital employed (ROCE) and cash accruals as witnessed during FY22 and 9MFY23 due to volatility in the raw material prices, which the company was not able to pass on to its customers. This coupled with higher working capital borrowings is expected to result in moderation in debt coverage and return indicators. The outlook may be revised to 'Stable' in case the company is able to achieve higher-than-envisaged scale of operations and profitability while maintaining comfortable leverage and debt coverage indicators.

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

Key strengths

Experienced promoters in the solvent extraction industry

VIL is managed by Rahul Mutha and Praneet Mutha in the capacity of Managing Director and Joint Managing Director, respectively. Rahul Mutha has more than three decades of experience, while Praneet Mutha has more than two decades of experience in the field of solvent extraction industry. They have strengthened the company's position as a producer of value-added soya products, including 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 an established track record of over four decades in the solvent extraction and edible refining business. It established its operations 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 years, it has also added new soya-based value-added products to its product portfolio. VIL is based out of Madhya Pradesh, the largest soyabean-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 soyabean seeds to extract crude soya oil and value-added products, such as 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 FY22, sale of DOC, refined oil and value-added products contributed 31%, 28% and 19%, respectively (FY21: 22%, 29% and 26%), while lecithin and other by-products (including trading sales) contributed 23% to the total operating income (TOI) (FY21: 23%). VIL has established and diversified customer base in domestic as well as export market with top 10 customers contributing 19% in FY22 (FY21: 18%). Currently, the company is regularly exporting value-added non-GMO soya products to more than 40 countries across the globe with exports forming 23% of the net sales in FY22 (FY21: 20%). However, despite healthy proportion of value-added products, profitability has shown moderation as the company was not able to fully pass on increase in raw material prices to its customers.

Significant growth in scale of operation

The TOI of VIL exhibited strong growth of 48.89% from ₹1,641.60 crore during FY21 to ₹2,443.94 crore during FY22 on the back of modest increase in the sales volume and significant increase in the average sales realisation in tandem with increase in the input prices to an extent. Overall sales volume grew by 7.77% (excluding trading sales and by-product) during FY22 on y-o-y basis. During FY22, 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 76% during FY22 on y-o-y basis.

The TOI during 9MFY23 reduced by 22% to ₹1,454.24 crore (9MFY22: ₹1,866.72 crore), mainly on the back of moderation in sales volume by around 29% on y-o-y basis coupled with decline in the average sales realisation with significant decline in crushing operations due to volatility in input prices and cheaper imports of oil in Indian market. CARE Ratings Limited (CARE Ratings) expects overall decline in the TOI in FY23 as compared with FY22.

Comfortable leverage; albeit moderation in debt coverage indicators with increase in working capital requirement

VIL continues to have comfortable capital structure marked by overall gearing of 0.57x as on March 31, 2022, as compared with 0.85x as on March 31, 2021. The total outside liability to tangible net worth also remained at 0.75x as on March 31, 2022 (1.02x as on March 31, 2021). Furthermore, the overall gearing on net debt level (debt net off free cash and bank balance) also remained at 0.40x as on March 31, 2022, as compared with 0.64x as on March 31, 2021. Further, the overall gearing has deteriorated to 0.70x as on December 31, 2022, on the back of modest accretion to reserves and significant increase in the working capital bank borrowings.

VIL's debt coverage indicators, i.e., total debt to gross cash accruals (TDGCA) and total debt to PBILDT though improved remained moderate at 5.74x and 4.24x, respectively, during FY22. The PBILDT interest coverage ratio remained at 7.13x during FY22

(FY21: 4.46x). However, the TDGCA and interest coverage has deteriorated to 10.09x and 3.96x, respectively, during 9MFY23 as compared with 3.35x and 11.95x, respectively, during 9MFY22.

Key weaknesses

Thin profitability which had exhibited a declining trend in last three years ended FY22 and 9MFY23

The PBILDT margin of VIL declined by 18 bps from 1.99% during FY21 to 1.80% during FY22 and remained very thin. For 9MFY23, the PBILDT margin declined on y-o-y basis and remained at 2.07% as compared with 2.72% during 9MFY22. 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 the company was unable to pass on fully to its customers (including soya meal) and higher base effect. Average soyabean prices in the domestic market had shown increasing trend from around ₹53 per kg March 2021 to around ₹76-78 per kg in March 2022 and reversal of trend was observed in 9MFY23 with decrease in price to around ₹53-55 per kg in December 2022. The PBILDT margin of VIL was also impacted by low margin trading sales during FY22 and 9MFY23. CARE Ratings notes that the overall GCA levels were significantly lower compared to the envisaged level and expects them to remain subdued during FY23 with overall lower crushing operations and volatile input costs.

Large inventory holding requirement with seasonality associated with soyabean seeds

Soyabean 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 soyabean seeds, which is generally high during the peak season as well as crop prospect in the major soyabean growing countries across the globe. VIL funds its working capital requirement through own funds, working capital bank borrowings and overdraft against fixed deposit. Apart from these, VIL had also availed short-term loan during FY22 and 9MFY23 to fund its growing working capital requirement. As on March 31, 2022, VIL had total stock inventory of ₹295 crore compared with ₹286 crore as on March 31, 2021. Furthermore, the closing stock of inventory increased to ₹381 crore as on December 31, 2022.

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 the 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. The 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 the 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. Furthermore, during FY22, VIL derived nearly 23% of its revenue (FY21: 20%) from exports, whereas the import on the other side is negligible. Hence, VIL is a net exporter and thus exposed to adverse fluctuation in foreign currency exchange risk. However, the same is partially mitigated by the fact that VIL generally enters into forward contract as per the company's hedging policy.

Presence in the competitive soya edible oil industry

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 the 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 apart from price differential between the domestic soyabean seed prices and international soya DOC prices. However, with increase in brand awareness, health consciousness and penetration of organised retail, the size of the branded edible oil industry is likely to increase, which would provide more pricing power to the organised branded players.

Liquidity: Adequate

VIL had adequate liquidity marked by adequate cash generation, low repayment obligation and moderate working capital utilisation.

VIL is expected to earn GCA of ₹20-25 crore for FY23, whereas its total debt repayment obligation is around ₹3 crore for FY23. The average fund-based working capital utilisation (excluding OD limit utilisation) remained moderate at 53.94% for past 12 months ended December 31, 2022. Its liquidity is also supported by liquid investment of ₹53.31 crore as on March 31, 2022 and ₹41.44 crore as on December 31, 2022, which are marked against overdraft against FDs. The current ratio and quick ratio remained comfortable at 2.22x and 0.92x, respectively, as on March 31, 2022, as compared with 1.87x and 0.87x, respectively, as on March 31, 2021.

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](#)
[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Agricultural Food & other Products	Edible Oil

Established in 1973 as Vippy Solvex Private Limited, VIL (CIN: U15142MP1973PLC001225) is a 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 412,500 metric tonne per annum (MTPA) and oil refining capacity of 102,500 MTPA as on March 31, 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	1,641.60	2,443.94	1,454.24
PBILDT	32.65	44.09	30.07
PAT	24.42	26.94	13.85
Overall gearing (times)	0.85	0.57	0.70
Interest coverage (times)	4.46	7.13	3.96

A: Audited; UA: Unaudited; Note: the above results are latest financial results available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of rated instruments / facility: Not applicable

Complexity level of various instruments rated: Annexure- 4

Lender details: Annexure-5

Annexure-1: Details of instrument/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	July 2025	7.00	CARE A-; Negative
Fund-based - LT/ ST-Working Capital Limits		-	-	-	180.00	CARE A-; Negative / CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	20.00	CARE A2+

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	180.00	CARE A-; Negative / CARE A2+	1)CARE A-; Negative / CARE A2+ (06-Mar-23)	1)CARE A-; Stable / CARE A2+ (04-Mar-22)	1)CARE A-; Stable / CARE A2+ (04-Mar-21)	1)CARE A-; Stable / CARE A2+ (24-Feb-20)
2	Fund-based - LT-Term Loan	LT	7.00	CARE A-; Negative	1)CARE A-; Negative (06-Mar-23)	1)CARE A-; Stable (04-Mar-22)	1)CARE A-; Stable (04-Mar-21)	-
3	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A2+				

* 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

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

Annexure-5: Lender details

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

Note on the complexity levels of the rated instruments: CARE Ratings 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.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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