# Vippy Industries Limited

November 07, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term bank facilities | 7.00 | CARE BBB+; Stable | Revised from CARE A-; Negative |
| Long-term / Short-term bank facilities | 180.00 | CARE BBB+; Stable / CARE A2 | Revised from CARE A-; Negative / CARE A2+ |
| Short-term bank facilities | 20.00 | CARE A2 | Revised from CARE A2+ |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Vippy Industries Limited (VIL) is on the back of continued moderation in operating profit margins over the past few years largely due to raw material price volatility. This coupled with substantial increase in interest & financial charges during FY23 (FY refers to the period from April 1 to March 31) due to increased reliance on working capital borrowings resulted in moderation in capital structure as well as deterioration in debt coverage indicators during the period.

The ratings, however, 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. Further, the ratings continue to factor in VIL's moderate scale of operations and adequate liquidity.

The ratings continue to remain constrained on account of 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: Factors likely to lead to rating actions

**Positive Factors**

- Significant growth in scale of operation supported by addition of value-added products and increase in PBILDT margin above 3.50% on sustained basis.
- Improvement in PBILDT interest coverage above 5.00x and total debt / gross cash accrual (GCA) below 4.00x on sustained basis.

**Negative Factors**

- Decline in scale of operations to below ₹1,300 crore along with PBILDT margin below 1.25% on sustained basis
- Any deterioration in net overall gearing (adjusted for total debt less cash and bank including liquid investments) to more than 1.00x on sustained basis.
- Significant increase in the inventory holding level resulting in operating cycle beyond 90 days.

## Analytical approach: Standalone

## Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that the company shall continue to benefit from long track record of operations and extensive experience of its promoters in the solvent extraction industry.

## Detailed description of the key rating drivers

**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 the 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.

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

**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". VIL has established and diversified customer base in domestic as well as export market. Currently, the company is regularly exporting value-added non-GMO soya products to more than 40 countries across the globe with exports forming 29% of the net sales in FY23 (FY22: 23%). However, despite a healthy proportion of value-added products, profitability has shown moderation due to continuous decline edible oil and soya value-added products prices in international markets.

**Moderate scale of operations**

VIL's scale of operations marked by its total operating income (TOI) moderated by ~16.20% and remained at ₹2,048 crore in FY23 (₹2,444 crore in FY22). The moderation was mainly on account of decline in edible oil prices and soya-based value-added products resulting in lower realisation during the period.

**Key weaknesses**

**Decline in operating profitability over the last few years**

The PBILDT margin of VIL declined over the past five years from 4.49% in FY19 to 1.32% in FY23 on the back of raw material price volatility which could not be passed on to its customers. On y-o-y basis as well, PBILDT margin moderated by ~48 bps from 1.80% in FY22 to 1.32% in FY23 due to declining trend in soya meal and soyabean refined oil prices leading to inventory loss during the period. The PBILDT margin of VIL was also impacted by low margin trading sales during FY23 as well as FY22. VIL is expected to face margin pressure in H1FY24 as well due to continued declining trend in prices of soyabean.

Moderation in scale of operations as well as profitability coupled with substantial increase in interest cost during the period resulted in significantly lower gross accruals of ₹17 crore in FY23 as against ₹33 crore in FY22. CARE Ratings notes that the overall GCA levels were much lower compared to the envisaged level.

**Moderation in capital structure and debt coverage indicators**

VIL's capital structure moderated on the back of increased reliance on working capital borrowings but remained comfortable with overall gearing of 0.74x as on March 31, 2023, as compared with 0.57x as on March 31, 2022. The total outside liability to tangible net worth also remained at 0.92x as on March 31, 2023 (0;.75x as on March 31, 2022). Furthermore, the overall gearing on net debt level (debt net off cash and bank balance including liquid investments) also remained at 0.61x as on March 31, 2023, as compared with 0.40x as on March 31, 2022.

However, VIL's debt coverage indicators deteriorated with PBILDT interest coverage of 2.01x in FY23 (FY22: 7.13x) and total debt to gross cash accruals (TDGCA) of 14.80x in FY23 (FY22: 5.74x).

**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 FY23 and FY22 to fund its growing working capital requirement. As on March 31, 2023, VIL had total stock inventory of ₹335 crore compared with ₹295 crore as on March 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, VIL is a net exporter and thus is 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. The company reported foreign exchange fluctuation loss of ₹7.28 crore in FY23 against foreign exchange fluctuation gain of ₹6.46 crore in FY22.

**Presence in the competitive soya edible oil industry**
The 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 against low repayment obligation. Its liquidity is supported by cash and liquid investment of ₹42.73 crore as on March 31, 2023, against which it had also availed overdraft of ₹36.31 crore. The operating cycle was moderate at 73 days in FY23 (FY22: 56 days), majorly on account of the inventory holding period of ~60 days (FY22: 46 days).

## Environment, social, and governance (ESG) risks: Not Applicable

## 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, 2023.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | H1FY24 (P) |
|---|---|---|---|
| Total operating income | 2,443.94 | 2,047.94 | NA |
| PBILDT | 44.09 | 27.09 | NA |
| PAT | 26.94 | 11.36 | NA |
| Overall gearing (times) | 0.57 | 0.74 | NA |
| Interest coverage (times) | 7.13 | 2.01 | NA |

A: Audited P: Provisional; Note: 'the above results are latest financial results available', NA: Not 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:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**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 BBB+; Stable |
| Fund-based - LT/ ST-Working capital limits | | - | - | - | 180.00 | CARE BBB+; Stable / 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 2023-2024 | 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 |
| 1 | Fund-based - LT/ ST-Working capital limits | LT/ST* | 180.00 | CARE BBB+; Stable / CARE A2 | - | 1)CARE A-; Negative / CARE A2+ (15-Mar-23)<br><br>2)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) |
| 2 | Fund-based - LT-Term loan | LT | 7.00 | CARE BBB+; Stable | - | 1)CARE A-; Negative (15-Mar-23)<br><br>2)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 | - | 1)CARE A2+ (15-Mar-23) | - | - |

** 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

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|---|
| 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.

**Contact us**


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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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