Vippy Industries Limited

December 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1.75 (Reduced from 4.75)	CARE BBB+; Stable	Reaffirmed
Long-term / Short-term bank facilities	180.00	CARE BBB+; Stable / CARE A2	Reaffirmed
Short-term bank facilities	20.00	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to 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, moderate scale of operations, comfortable capital structure and adequate liquidity.

However, ratings continue to remain constrained considering moderation in operating profit margin in the last few years ended FY24 (refers to April 01 to March 31) with increase in concentration of Soya DOC in product basket, along with its weak debt coverage indicators. product portfolio of non-genetically modified (non-GMO) soya products with focus on value-added products. Further, ratings continue to factor in large inventory holding requirement due to seasonality associated with the 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 profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 3.50% on a sustained basis.
- Improvement in capital structure along with improvement in PBILDT interest coverage above 5.00x and total debt to gross cash accrual (TD/GCA) below 4.00x on a sustained basis.

Negative factors

- Decline in scale of operations to below ₹1,300 crore along with PBILDT margin below 1.25% on a sustained basis.
- Any deterioration in net overall gearing (adjusted for total debt less cash and bank including liquid investments) to over 1.00x on a 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 solvent extraction industry.

Detailed description of key rating drivers:

Key strengths

Experienced promoters in the solvent extraction industry

VIL is managed by Rahul Mutha and Praneet Mutha as Managing Director and Joint Managing Director, respectively. Rahul Mutha has over three decades of experience, while Praneet Mutha has over two decades of experience in the field of solvent extraction industry.

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 oil refining business. It established its operations in 1973 followed by major technological upgradation of its plant and machinery in 1995-96. It has since then built its portfolio of value-added non-genetically modified (non-GMO) soya products. In the last 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

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

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 middlemen/intermediary and it is also geographically closer to local mandis selling soya seeds.

Moderate scale of operations 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 and under its brand name, "VAMA". VIL has established and diversified customer base in domestic and export market. Currently, the company is regularly exporting value-added non-GMO soya products to over 40 countries across the globe with exports forming 29% net sales in FY24 (FY23: 29%).

In FY24, VIL's total operating income (TOI) remained largely stable at ₹1,979 crore in FY24 compared to ₹2,048 crore in FY23. While overall sales volume increased due to higher trading volume from soya DOC as well as higher volume of refined oil and value-added products on year-over-year (y-o-y) basis, sales realisation moderated due to declining trend of edible oil prices resulting in stable TOI. Furthermore, VIL reported TOI of ₹924.09 crore in H1FY25.

Comfortable capital structure albeit weak debt coverage indicators

VIL's capital structure remained comfortable marked by adjusted overall gearing (adjusted for free cash and bank balance) at 0.52x as on March 31, 2024 (0.61x as on March 31, 2023). The improvement was considering reduced working capital borrowings. Major part of debt (~98%) was in the form of working capital borrowings. The company's total net worth base grew over the years and remained strong at ₹349.80 crore as on March 31, 2024.

With moderation in profitability due to edible oil price volatility, debt coverage indicators weakened marked by PBILDT interest coverage of 1.28x (FY23: 2.01x) and TD/GCA of 20.55x (FY23: 14.80x) in FY24. However, with stability in edible oil prices in current financial year resulting in improved profitability, PBILDT interest coverage improved to 2.23x in H1FY25.

Key weaknesses

Decline in operating profitability and increased concentration in product basket

VIL's PBILDT margin declined in the last few years from 3.53% in FY20 to 0.93% in FY24, considering raw material price volatility and increased concentration of soya DOC in the product basket which fetches lower profitability. Soya DOC formed 60% of TOI in FY24 against 31% in FY20. Furthermore, contribution of value-added products declined from 19% in FY20 to 8% in FY24, which also impacted the profitability.

On y-o-y basis as well, PBILDT margin moderated by ~39 bps from 1.32% in FY23 to 0.93% in FY23 due to declining trend in soya meal and soyabean refined oil prices leading to inventory loss in the period. VIL's PBILDT margin was also impacted by low-margin trading sales in FY24 and FY23. However, PBILDT margin improved marginally to 1.61% in H1FY25, considering stabilisation of raw material prices to some extent. Moderation in scale of operations and profitability coupled with substantial increase in interest cost in FY23 and FY24 resulted in significantly lower gross accruals of ₹11 crore in FY24 (FY23: 17 crore) against ₹33 crore in FY22.

Large inventory holding requirement with seasonality associated with soyabean seeds

Soyabean seed is generally available from the onset of harvesting season, 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 in the peak season and 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 to fund its growing working capital requirement in the procurement season. As on September 30, 2024, VIL had total stock inventory of ₹173 crore compared to ₹320 crore as on March 31, 2024.

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 depends upon rainfall, area under cultivation and government policies like minimum support price, and import/export duty among others. 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. Inventory holding in the absence of 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, this 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 gain of ₹0.55 crore in FY24 against foreign exchange fluctuation loss of ₹7.28 crore in FY23.

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 such as 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, 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 low repayment obligation, positive cash flow from operations and moderate working capital utilisation. Its liquidity is also supported by liquid investment of ₹44.85crore as on March 31, 2024, and ₹51.89 crore as on September 30, 2024, which are partly utilised towards availing overdraft limit. VIL registered positive cash flow from operation of ₹36.09 crore in FY24 compared to negative CFO in FY23 considering recovery in receivables and reduced inventory levels. The operating cycle was moderate at 83 days in FY24 (FY23: 73 days), majorly considering inventory holding period of ~63 days (FY23: 62 days).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria
[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry
Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food and 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 extracting soya oil from soya seeds, refining crude soya oil and manufacturing value-added soya-based products. VIL's main products 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 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 September 30, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (P)
Total operating income	2,047.94	1,979.48	924.09
PBILDT	27.09	18.48	14.92
PAT	11.36	5.20	4.12
Overall gearing (times)	0.74	0.65	0.67
Interest coverage (times)	2.01	1.28	2.23

A: Audited; P: Provisional; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	July 2025	1.75	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 for last three year

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
1	Fund-based - LT/ ST-Working Capital Limits	LT/ST	180.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (06-Dec-23) 2)CARE BBB+; Stable / CARE A2 (07-Nov-23)	1)CARE A-; Negative / CARE A2+ (15-Mar-23) 2)CARE A-; Negative / CARE A2+ (06-Mar-23)	1)CARE A-; Stable / CARE A2+ (04-Mar-22)
2	Fund-based - LT-Term Loan	LT	1.75	CARE BBB+; Stable	-	1)CARE BBB+; Stable (06-Dec-23) 2)CARE BBB+; Stable (07-Nov-23)	1)CARE A-; Negative (15-Mar-23) 2)CARE A-; Negative (06-Mar-23)	1)CARE A-; Stable (04-Mar-22)
3	Non-fund-based - ST-Letter of credit	ST	20.00	CARE A2	-	1)CARE A2 (06-Dec-23) 2)CARE A2 (07-Nov-23)	1)CARE A2+ (15-Mar-23)	-

LT/ST: Long term/Short term; LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

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