

Vijay Solvex Limited

March 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	55	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	45	CARE A3 (A Three)	Reaffirmed
Total Facilities	100 (Rupees One hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Vijay Solvex Limited (VSL) continue to derive strength from vast experience of promoters in edible oil industry along with synergies derived from operational linkages among group entities and stable demand outlook for edible oil. The ratings further draw strength from strategic location of processing units with close proximity to raw material source and comfortable capital structure and debt coverage indicators along with moderate liquidity position.

The ratings, however, remained constrained due to its presence in highly fragmented and competitive oil industry with threat from cheap imports, moderate scale of operation of the group with 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.

The ability of Niranjana Lal Data Group (NLDG) to increase its scale of operations while improving profitability in the light of volatile raw material prices and improvement in capital structure as well as efficient working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of promoters in edible oil industry and operational synergies among group entities: Being part of Niranjana Lal Data group (NLDG), top management of VSL has developed significant experience in edible oil industry. Mr Niranjana Lal Data has more than five decades of experience in the edible oil industry and looks after overall management. The company along with Deepak Vegpro Pvt Ltd (DVPL) also derives operational synergy with Data Oils (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: The consumption of edible oil in India has been rising steadily which can be attributed mainly to economic boom resulting in better standard of living, decline in edible oil prices and growth in demand for fried processed food products. India's per capita consumption in edible oils is growing and hence the domestic demand for edible oil is estimated to move faster in the medium to long term on account of the higher disposable income.

Strategic location of manufacturing units with close proximity to raw material sources: NLDG'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 group has 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

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

the proximity to raw material producing region, group has access to mustard seeds and oil cakes throughout the year which makes it possible for group to provide oil and DOC on demand to its customers.

Comfortable capital structure and debt coverage indicators: The capital structure stood of the group stood comfortable with an overall gearing of 0.79 times as on March 31, 2017. Further, debt coverage indicators of the group also stood comfortable with PBILD interest coverage at 6.40 times in FY17 and total debt to GCA of 5.96 times as on March 31, 2017.

Moderate Liquidity position: Liquidity position of the company remained moderate with operating cycle of 39 days in FY17. Further, average utilization of fund based working capital borrowing limits of VSL was low at 31% during last 12 months ended December, 2017. However, utilization of non-fund based limits remained high at 91% for last 12 months ending December, 2017.

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 from time to time revises the import duties on palm and other edible oils in order to protect interest of domestic extractors and refineries. The government raised the import duty on crude palm oil to 44% from 30% and increased the import duty on refined palm oil to 54% from 40%. However, import duty on crude and refined soya bean oil remained unchanged at 30% and 35% respectively. Resultantly, the revision in duty structure is likely to protect the domestic extractors and refineries.

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. 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, the company imports crude soya oil mainly from Argentina and Brazil whereas it imports Canola oil from Dubai which constituted around 30% (29% in FY16) of raw material consumption in FY17. The company does not have any active hedging policy for foreign currency payables. Hence, profitability of the company is exposed to any adverse movement in foreign exchange rates.

Moderate scale of operations and profitability margins: Total Operating Income of group increased marginally from Rs.974.84 crore in FY16 to Rs.983.86 crore in FY17 on account of increase in sales volume to external parties. Profitability margins at group level remained moderate with PBILD and PAT margins of 3.70% and 1.78% respectively in FY17.

Analytical approach: For analysis purpose we have presented a combined view of the group entities (VSL, DVPL, and DOS) as all these entities are in same line of business, have common promoters, are under common management and have operational linkages.

Applicable Criteria

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

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

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology – Manufacturing companies](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for Short Term Instruments](#)

About the Company

Alwar (Rajasthan) based VSL was incorporated in 1987 by Mr. Niranjana Lal Data and family. VSL 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. 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 56,000 TPA.

NLDG has also promoted Deepak Vegpro Private Limited (DVPL, rated CARE BBB-; Stable/CARE A3) and Data Oils (DOS, Partnership concern), engaged in similar line of business.

Combined Group (VSL, DVPL and DOS)

Brief Financials (Rs. crore)	FY16 (UA)	FY17 (UA)
Total operating income	974.68	983.86
PBILDT	31.53	36.40
PAT	13.18	17.47
Overall gearing (times)	0.78	0.79
Interest coverage (times)	3.30	6.40

UA: Un-Audited

Financials (VSL- standalone)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	695.69	688.08
PBILDT	15.31	16.89
PAT	5.40	8.19
Overall gearing (times)	0.76	0.67
Interest coverage (times)	2.47	6.12

A: Audited

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

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.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	55.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	35.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	55.00	CARE BBB-; Stable	-	1)CARE BBB-; Stable (02-Feb-17)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	35.00	CARE A3	-	1)CARE A3 (02-Feb-17)	-	-
3.	Fund-based - ST-Term loan	ST	10.00	CARE A3	-	1)CARE A3 (02-Feb-17)	-	-

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