

Vijay Solvex Limited

December 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	37 (enhanced from Rs.27 crore)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	83 (enhanced from Rs.73 crore)	CARE A3 (A Three)	Reaffirmed
Total Facilities	120 (Rupees One hundred and twenty 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 its promoters in the edible oil industry with operational synergies among group entities and stable demand outlook for edible oil and De-Oiled cake (DOC). The ratings further draw strength from strategic location of processing units with close proximity to raw material sources, growing scale of operations along with its comfortable capital structure and moderate debt coverage indicators.

The ratings, however, remain constrained due to its presence in the highly fragmented and competitive edible oil industry with threat from cheap imports and its inherently thin profitability margins. The ratings are further constrained on account of vulnerability of its profitability margins to fluctuations in the raw material prices and foreign exchange rate.

Rating Sensitivities

Positive Factors

- Growth in its scale of operations along with improvement in its PBILDT margin beyond 4% on sustained basis
- Improvement in debt coverage indicators with total debt to GCA going below 4 times and PBILDT interest coverage of more than 4 times on sustained basis
- Improvement in capital structure with overall gearing going below 0.50 times along with maintaining its short working capital cycle

Negative Factors

- Decline in total operating income (TOI) by more than 20% from envisaged level and fall in PBILDT margin below 1.50% on sustained basis
- Overall gearing deteriorating beyond 1.25 times.
- Significant elongation in its working capital cycle

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of promoters in edible oil industry: Being part of Niranjan 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. The company along with its group entities i.e. Deepak Vegpro Private Limited (DVPL) and Data Oils (DOS) derives operational synergy through purchase and sale of raw material and finished goods. 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 and DOC: The consumption of edible oil in India has been rising steadily which can be attributed mainly to 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. Further, India is a major participant in the export market for DOC and is one of the largest exporters of DOC from Asia. Proximity to South-East Asian markets has provided the benefit of cheaper freight and faster reach for Indian exporters. Moreover, there is rising domestic demand for DOC from the poultry and cattle feed industry in India to meet the demand for animal protein products. During FY19, India's export of mustard DOC increased by 58% in volume terms and around 67% in value terms with 87% of mustard DOC (in volume term) being exported to Vietnam, South Korea and Thailand.

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

Strategic location of manufacturing units with close 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 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 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.

Growing scale of operations: Total Operating Income of VSL increased by 39.68% to Rs.1228.87 crore during FY19 on account of increase in sales volume of edible oil and DOC following increase in demand of DOC from overseas market.

Comfortable capital structure and moderate debt coverage indicators: The capital structure of VSL stood comfortable with an overall gearing of 0.63 times as on March 31, 2019. Further, debt coverage indicators of the group also stood moderate with PBILDT interest coverage at 3.59 times in FY19 and total debt to GCA of 5.50 times as on March 31, 2019.

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.

Inherent thin profitability margins which are also vulnerable to volatility in prices of raw materials and foreign exchange fluctuations: Profitability margin of VSL has inherently remained thin; albeit stable with PBILDT and PAT margins of 2.34% and 1.04% respectively in FY19 as against 2.41% and 1.17% respectively in FY18. 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 whereas it imports Canola oil from Dubai which constituted around 25% (35% in FY18) of raw material consumption cost in FY19 for VSL. The company does not have any active hedging policy for foreign currency payables; however, it uses foreign exchange forward contracts to partly mitigate exposure in foreign currency risk to some extent. Hence, profitability of the company is exposed to any adverse movement in foreign exchange rates. VSL incurred foreign exchange loss of Rs.3.50 crore in FY19 as against foreign exchange gain of Rs.0.10 crore FY18. Further, VSL has incurred foreign exchange loss of Rs.1.31 crore on foreign currency payables in H1FY20.

Liquidity - Adequate: VSL's liquidity position remained adequate marked by gross cash accruals of Rs.14.57 crore in FY19 with no long-term debt repayments. Further, the company expects to generate cash accruals of Rs.16-18 crore during FY20 to FY21. As on March 31, 2019, the company had free cash and bank balance of Rs.16.76 crore. Although, average utilisation of fund based limits stood low at 45.82% for last 12 months ending November, 2019, utilisation of non-fund based limits stood high at 91.54% during the same period. During FY19, the company generated cash flow of Rs.73.51 crore from operating activities as against negative Rs.23.56 crore in FY18.

Analytical approach: Standalone. The analytical approach has been changed from combined (i.e. combining the financials of Vijay Solvex Ltd. (VSL), Deepak Vegpro Pvt. Ltd. (DVPL) and Data Oils (DOS) and adjusting for inter-group transactions) to standalone in line with updation of CARE's criteria for consolidation and factoring linkages in rating. The change in analytical approach is purely on account of revised criteria adopted by CARE Ratings for rating of debt while taking a combined approach for a group of entities. As per the revised criteria, a listed entity cannot be combined with other listed/non-listed entities to arrive at the ratings for a group of entities/entity on a combined approach & hence they have to be analyzed as a separate entity and not combined with other entities of the group. However, the ratings still continue to factor in the strong inter-linkages of VSL with its group entities (i.e. DVPL and DOS).

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Alwar (Rajasthan) based Vijay Solvex Limited (VSL) was incorporated in 1987 by Mr. Niranjan Lal Data and family. VSL is the flagship company of Niranjan 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 soya edible oils. 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 105,000 TPA. 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). The group sells edible oil in the domestic market through 100 distributors mainly in North East, Bihar, Rajasthan, Haryana and Delhi under the established brand names of 'Scooter', 'Chancellor', 'Oligo', 'Shiv,' 'Sikandar', 'Neeraj' and 'Hanuman'.

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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	879.77	1228.87
PBILDT	21.18	28.69
PAT	10.26	12.73
Overall gearing (times)	0.85	0.63
Interest coverage (times)	5.90	3.59

A: Audited

During H1FY20, VSL reported TOI of Rs.693.73 crore with PAT of Rs.7.79 crore as against TOI of Rs.571.65 crore with a PAT of Rs.4.31 crore during H1FY19.

Status of non-cooperation with previous CRA: None

Any other information: Not applicable

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

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	-	-	-	37.00	CARE BBB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	73.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	37.00	CARE BBB-; Stable	1)CARE BBB-; Stable (04-Apr-19)	-	1)CARE BBB-; Stable (14-Mar-18)	1)CARE BBB-; Stable (02-Feb-17)
2.	Non-fund-based - ST-Letter of credit	ST	73.00	CARE A3	1)CARE A3 (04-Apr-19)	-	1)CARE A3 (14-Mar-18)	1)CARE A3 (02-Feb-17)
3.	Fund-based - ST-Term loan	ST	10.00	CARE A3	1)CARE A3 (04-Apr-19)	-	1)CARE A3 (14-Mar-18)	1)CARE A3 (02-Feb-17)

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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