

Vijay Solvex Limited

January 06, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	27.00 (Reduced from 50.00)	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	60.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Assigned
Short Term Bank Facilities	83.00 (Reduced from 120.00)	CARE A3+ (A Three Plus)	Reaffirmed
Total Bank Facilities	170.00 (₹ One Hundred Seventy Crore Only)		

Details of facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of Vijay Solvex Limited (VSL) continue to derive strength from wide experience of its promoters in edible oil industry coupled with its operational synergies with group entities, its growing scale of operations, comfortable capital structure and debt coverage indicators and adequate liquidity. The ratings also factor in stable demand outlook for edible oil and strategic location of its manufacturing unit with proximity to raw material sources.

The ratings, however, remained constrained on account of its presence in highly fragmented and competitive oil industry with threat from cheap imports and low profitability which declined in FY22 (FY refers to period from April 01 to March 31) and H1FY23 (Unaudited). The ratings are further constrained on account of vulnerability of profitability margins to fluctuations in the raw material prices and foreign exchange rate.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Substantial growth in scale of operations while sustaining PBILDT margin beyond 4.00%
- Sustaining its capital structure with overall gearing going below 0.50 times

Negative Factors- Factors that could lead to negative rating action/downgrade

- Decline in total operating income (TOI) by more than 30% from envisaged level and fall in PBILDT margin below 2.25% on sustained basis
- Overall gearing deteriorating beyond 1.00 times on sustained basis
- Any adverse outcome of pending litigations against company

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of promoters in edible oil industry and operational synergies with group entities: Being part of Nirajan Lal Data group (NLDG), top management of VSL has vast 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. Mr. Daya Kishan Data, whole time director and Mechanical Engineer by qualification, has more than two decades of experience in ceramic industry and looks after ceramic division of the company. VSL has operational synergies with its group entities, viz., Deepak Vegpro Private Limited (DVPL, Rated: CARE BBB-; Stable / CARE A3), Data Oils (DOS; discontinued operations from FY23 beginning) and VSDS Foods Private Limited (VSDS; newly incorporated entity carrying out oil milling function of the group). VSL purchases mustard oil cake and crude soyabean from group companies whereas partly sells refined oil through group companies. Currently, group companies met around 50% of VSL's requirement for DOC and crude mustard oil and rest is procured from third parties.

Growing scale of operations: VSL's TOI registered growth of ~31% Y-o-Y to Rs.2716 crore in FY22 [PY: Rs.2075 crore] on account of increase in sales realization of vegetable oils (by ~36% Y-o-Y), vanaspati ghee (by ~41% Y-o-Y) and oilcakes / DOC (by ~28% Y-o-Y) in tandem with increased raw material prices while sales volume had marginally declined for vegetable oils (by ~3% Y-o-Y) and oil cakes / DOC (by ~7% Y-o-Y), though volume of vanaspati ghee increased (by ~15% Y-o-Y). Edible oil segment of the company remained dominant segment marked by its 99% contribution in total sales in FY21 as well as H1FY22.

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

Around 50% of edible oils comprised of blended oil. In H1FY23 (UA), VIL's TOI remained stable at 1243.24 crore [PY: Rs.1281.19 crore] on y-o-y basis. In near term, sales is expected to remain stable with modest volume growth.

Comfortable capital structure and debt coverage indicators: The capital structure of VSL remained comfortable with an overall gearing of 0.55 times as on March 31, 2022 which is in line with previous year. The company's tangible net worth augmented on the back of accretion of profits into reserves and remained moderate at Rs.266 crore as on March 31, 2022. TOL / TNW of the company also remained comfortable at 0.70 times as on March 31, 2022. Overall gearing and TOL / TNW continued to remain comfortable at 0.47 times and 0.61 times respectively as on September 30, 2022 (UA). With no major capex planned capital structure is expected to remain comfortable.

Debt coverage indicators of the company continued to remain comfortable as marked by interest coverage ratio of 12.75 times and total debt /GCA (TDGCA) of 2.57 times for the year ended on March 31, 2022. Debt coverage indicators deteriorated with decreased PBILD, and subsequently GCA, however, continued to remain comfortable with interest coverage and TDGCA of 3.52 times and 5.14 times respectively in the half year ended on September 30, 2022 (UA).

Strategic location of manufacturing units with 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 (mustard seed and Mustard Oil Cake) 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. However, the company also imports crude soya oil through Kandla port (Gujarat) which is located at a long distance from VSL's plants.

Stable demand outlook for edible oils: Edible oils and Fats are essential ingredients for a wholesome and balanced diet and are vital items of mass consumption. The total consumption of edible oil in Indian in Oil Year (OY: refers to period from November 01 to October 31) 2021 has been estimated to be ~25 Mn MT. Out of the total requirement, it is estimated that ~11 Mn MT is produced domestically from primary (Soybean, Rapeseed & Mustard, Groundnut, Sunflower, Safflower & Niger) and secondary sources (Oil palm, Coconut, Rice Bran, Cotton Seeds & Tree Borne Oilseeds) and remaining is met through import. Domestic production of edible oils is unable to meet domestic demand. As per the 4th Advance Estimates released by the Department of Agriculture, Cooperation and Farmers Welfare the estimated production of oilseeds for OY21 is 361.01 LMT as against 332.19 LMT in OY20. The total availability of edible oils from all sources (primary and secondary) for OY21 is estimated at 111.64 LMT as against 106.55 lakh tons in OY20. The gap between demand and supply is about 55% and is met through imports. Further, per capita consumption of edible oil of India remained inferior than world average, This exhibits potential opportunities for edible oil player in India towards untapped potential market.

Key Rating Weaknesses

Low profitability which declined during FY22 and H1FY23: During FY22, profitability of VSL moderated to FY20 levels marked by PBILD margin and PAT margin of 2.64% and 1.99% respectively as compared to extraordinary margin of 4.05% and 3.09% respectively in FY21 which were due to increased spread on the back of consistent uptrend scenario in edible oil price. In H1FY23 (UA), PBILD margin further moderated to 1.24% owing to government intervention on edible oil prices which impacted the profitability while seeds prices remained volatile. Profitability is expected to remain moderate in range of 1.5%-2.5% in medium term.

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. There is also presence of large integrated players such as Adani Wilmar Ltd (CARE AA-; Stable/CARE A1+), Ruchi Soya Industries Ltd, Emami Agrotech Ltd (CARE A-; Stable/CARE A2+), Marico Ltd. etc. having a sizeable oil processing and packaging scale with wide distribution network with logistics and supply chain capability.

Also, imported oil from overseas market posed further competition for domestic edible oil players, however, the government time to time revises the import duties and import tariffs on crude and refined edible oils in order to protect interest of domestic extractors and refineries. On other hand, VSL is major importer of crude soybean oil, any adverse change in import duty by the government would increase cost of raw material for the company and can impact profitability margins.

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 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 (directly as well as through group entities). The company does not have any active hedging policy for foreign currency payables; however, it uses foreign exchange forward contracts to mitigate exposure in foreign currency risk to certain extent as per market scenario. Hence, profitability of the company is exposed to any adverse movement in foreign exchange rates on unhedged portion. VSL incurred foreign exchange loss of Rs.3.34 crore in FY22 as against foreign exchange gain Rs.5.61 crore FY21.

Pending litigations against the company: As articulated by the management, VSL is the registered owner of 'Scooter' trademark/device/logo and copyright holder for the artwork of SCOOTER Wavy device which is registered with Registrar of Trade Mark and Copyright and is defending its right before the Hon'ble Courts and Tribunals, wherever the challenges against use of 'Scooter' and /or any other intellectual property rights of the Company have been made. Further, during FY10, some shareholders had moved petition before National Company Law Tribunal (NCLT; erstwhile Company Law Board) under Section 397-398 of the Companies Act, 1956 for mismanagement of affairs of the company. The said case is still subjudice before the Hon'ble National Company Law Tribunal, Jaipur/Kolkata which is yet to be heard finally by the NCLT. As per the management, issues raised in the petition are baseless and it will not have any financial implication on the company. However, final outcome of pending litigations against the company would remain key monitorable. Furthermore, the company has outstanding receivable of Rs.0.80 crore held with enforcement directorate, against matter pending before Appellate Authority (PMLA) New Delhi under Prevention of Money Laundering Act, 2002 (PMLA).

Liquidity: Adequate

VSL's liquidity remained adequate marked by healthy cash flow from operations and unencumbered cash and bank balance with low utilization of its fund-based working capital limits, though non-fund based working capital limits utilization remained high as well as healthy cash accruals against low debt repayments.

VSL's gross cash accruals remained at Rs.57 crore in FY22 with no major long-term debt repayments except low finance lease discharge obligation in FY23. Average utilization of its fund-based working capital limits remained low at less than 1% p.a. for last 12 months ending November, 2022, however, utilization of non-fund-based limits remained high at around 88% p.a. during last 12 months ended in September, 2022. The operating cycle of the company continued to remain short at 7 days in FY22. Current ratio of the company increased from 1.32 times as on March 31, 2021 to 1.71 times as on March 31, 2022 with substantial increase in unencumbered cash and bank balance to Rs.98 crore as on March 31, 2022. During FY22, the company reported healthy CFO of Rs.78 crore with significant increase in LC backed acceptance as on March 31, 2022 to support bulk purchase of mustard seeds in early season for FY23. Short term investments (including margin money as well as unencumbered cash and bank balance) remained at Rs.219 crore as on March 31, 2022 [PY: Rs.81 crore].

Analytical Approach: Standalone with factored in operational linkages with group companies (i.e. DVPL, DOS and VDSD). VSL has other group entities which are engaged in same line of business and have strong operational linkages.

Applicable Criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Policy on Withdrawal of Ratings](#)

[Manufacturing Companies](#)

About the Company

Alwar (Rajasthan) based VSL (CIN: L15142RJ1987PLC004232) was incorporated in 1987 by Mr. Niranjan Lal Data and family and it is the flagship company of 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 edible oils. **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 as on March 31, 2022.** The group sells edible oil in the

domestic market through more than 150 distributors mainly in North East, Bihar, Rajasthan, Haryana and Delhi under the established brand names of 'Scooter', 'Chancellor', 'Oligo', 'Shiv', 'Sikandar', 'Neeraj' and 'Hanuman'. VSL is also engaged in wind power generation, manufacturing of fine bone china crockery and High Tension (HT) porcelain insulators. 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). Group has also promoted DVPL, DOS and VDSD, engaged manufacturing of mustard oil and trading of crude and refined edible oil with operational linkages with VSL.

Brief Financials (Rs. crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	2075.27	2715.54	1243.24
PBILDT	84.07	71.67	15.41
PAT	64.26	54.14	11.40
Overall gearing (times)	0.55	0.55	0.47
Interest coverage (times)	26.95	12.75	3.52

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: CRISIL has suspended its rating vide press release dated September 28, 2012 on account of non-cooperation by VSL with CRISIL's efforts to undertake a review of the outstanding ratings

Any other information: Not applicable

Rating history (Last three years): Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of 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-Cash Credit	-	-	-	-	27.00	CARE BBB; Stable
Fund-based - LT/ ST-Cash Credit	-	-	-	-	60.00	CARE BBB; Stable / CARE A3+
Fund-based - ST-Term loan	-	-	-	31/03/2023	20.00	CARE A3+
Non-fund-based - ST-Letter of credit	-	-	-	-	63.00	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 (₹ 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-Cash Credit	LT	27.00	CARE BBB; Stable	-	1)CARE BBB; Stable (08-Feb-22) 2)CARE BBB; Stable (06-Jan-22)	1)CARE BBB; Stable (06-Jan-21)	1)CARE BBB-; Stable (31-Dec-19) 2)CARE BBB-; Stable (04-Apr-19)
2	Non-fund-based - ST-Letter of credit	ST	63.00	CARE A3+	-	1)CARE A3+ (08-Feb-22) 2)CARE A3+ (06-Jan-22)	1)CARE A3+ (06-Jan-21)	1)CARE A3 (31-Dec-19) 2)CARE A3 (04-Apr-19)
3	Fund-based - ST-Term loan	ST	20.00	CARE A3+	-	1)CARE A3+ (08-Feb-22) 2)CARE A3+ (06-Jan-22)	1)CARE A3+ (06-Jan-21)	1)CARE A3 (31-Dec-19) 2)CARE A3 (04-Apr-19)

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
						(06-Jan-22)		
4	Fund-based - LT/ ST-Cash Credit	LT/ST*	60.00	CARE BBB; Stable / CARE A3+				

* Long term / Short term

Annexure-3: Detailed explanation of covenants of the rated facilities:

Bank Facilities	Detailed explanation	
A. Financial covenants	VSL to maintain followings:	
	Covenant	Threshold
	Overall Gearing	≤ 1.75
	Current Ratio	≥ 1.10
B. Non financial covenants		
	1. Effect any drastic change in their management setup.	

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Fund-based - ST-Term loan	Simple
4	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

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

Note on complexity levels of the rated instruments: CARE Ratings Limited has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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