Rating Rationale

22 May 2020

Ruchi Soya Industries Limited

Brickwork Ratings assigns the long- and short-term ratings for the Bank Loan Facilities aggregating Rs. 3295.25 Crs of Ruchi Soya Industries Limited.

Particulars

Facility#	Amount (₹ Crs)	Tenure	Rating*
Fund based Cash Credit Term Loans	 **800.00** **2400.00**	**Long Term**	**BWR BBB+/Stable**
Short Term Loan	**95.25**	**Short Term**	**BWR A3+**
Non Fund Based BG/LC	**(350.00)**	**Short Term**	**BWR A3+**
Total	**3295.25^**	**Rupees Three Thousand Two Hundred Ninety Five Crores and Twenty Five Lakhs Only**	

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
#Facility-wise details of bank limits are available in Annexure I
^Non-Fund-Based limits are the sub-limits of Cash Credit limits

RATIONALE/OUTLOOK

The ratings assigned to Ruchi Soya Industries Limited (RSIL or the company) factor in its entrenched market position as a diversified and leading player in the edible oils segment in the country, mainly driven by its strong distribution network, well-known brands and manufacturing plants strategically placed at various oil seed producing and importing locations in the country, besides the successful IBBI resolution that led to its acquisition by a consortium lead by Patanjali Ayurved Ltd, a well-established player in the food, herbal medicine and FMCG segments. Post the company's acquisition, pursuant to the resolution plan, the new management took control of the company with effect from 18 December 2019. Brickwork Ratings (BWR) believes that post the acquisition, the new management, headed by Acharya Bal Krishna, is expected to ramp-up RSIL's operations, thereby improving its credit profile over the medium term.

RSIL's liquidity position also remains adequate as on 9MFY20, considering the absence of fixed debt obligations during FY21, a low average collection period and the availability of unencumbered liquid assets of over Rs. 380 Cr for meeting its required working capital needs. The management also plans to raise funds through a public offering of shares after the completion of the one year lock-in period as per SEBI guidelines. Furthermore, additional liquidity can be raised by the company by hiving off of its non-core assets and divesting a stake in subsidiaries as and when required.

As per the resolution approved by the NCLT order, the outside liabilities of the company have been reduced by over 65% and funds of over Rs. 1100 Cr infused by Patanjali Group, resulting in a significant improvement in its capital structure. The consortium of lenders have also sanctioned working capital limits of Rs. 800 Cr and term loans for its operations. As per the approved resolution plan, the contingent liabilities and commitments, and claims and obligations of any sort stand extinguished as on the closure date.

The ratings are, however, constrained by the competitive nature of the industry with low operating margins and a large number of established players. RSIL mainly generates revenues from low-value added products; thus, its profit margins and thereby, interest coverage indicators remain moderate, though in line with the industry. The company is associated with the agro-based nature of products, and thus, it is exposed to raw material price (mainly oil seeds and CPO) fluctuation risks, regulatory risks and foreign exchange risks, among others.

Due to the COVID-19 pandemic, RSIL faced bottlenecks in logistics and transportation, along with the availability of manpower for a few days during March 2020; however, the situation has improved subsequently. All its manufacturing units were operational during the lockdown period, ensuring compliance with safety guidelines and social distancing norms. Thus, the management has advised that RSIL will be able to achieve its quarterly projections despite facing COVID-19-related issues.

RATING OUTLOOK: Stable

BWR believes the company's business risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term. The rating outlook may be revised to Positive in case the company improves its profitability margins amid raw material price fluctuations and foreign exchange fluctuation risks and scale-up its operations, along with diversifying its existing product portfolio over the medium term. However, the rating outlook may be revised to Negative in case the company reports lower operating profit levels as projected and fails to improve its gearing over the medium term.

KEY RATING DRIVERS

Credit Strengths:

Established market position with a strong distribution network: RSIL has established its market position as a leading player in the edible oils segment. RSIL has over 90+ depots (with storage and other logistical facilities), which cater to 4,000+ distributors across the country, reaching over 1 million retail outlets. RSIL's product portfolio consists of edible oils, non-edible oils, vanaspati, oleo chemicals, specialty fats and other agro-products. Ruchi Gold, Nutrela and Mahakosh are prominent brands in the edible oils sector, among several other brands, with products being well-positioned in the market. The management has also proposed to add value-added products, such as blended oils, flour and honey, in the medium term to widen its current product portfolio and improve its market share.

Strong parentage support and operational synergies with Patanjali group businesses: RSIL enjoys the benefits of the support of Patanjali Ayurved Limited (PAL; rated as BWR AA-; Stable/A1+). The access to Patanjali's brand name and its distribution channel is likely to enable RSIL to leverage its product portfolio across new and incremental markets. There is also an agreement signed between PAL and RSIL as a take and pay arrangement for utilising the company's facilities. This arrangement is likely to generate additional income of around Rs.150- 200 Crs to RSIL each year.

RSIL units are strategically located: RSIL has 15 crushing units with facilities for oil extraction and with a matching refining capacity and six port-based refining units. Out of six refining units, four have direct pipelines between the port and plant, thereby providing easier access to imported edible oil. Crushing and integrated units are mostly around areas conducive for seed cultivation.

Turnover growth: RSIL has been able to maintain its turnover levels despite facing financial stress over the past three years. The annual turnover is expected to improve from Rs. 12,756.39 Crs in FY19 to Rs. 13,045.58 Crs in FY20 (projectedl) owing to a strong sales and distribution network. Since RSIL has access to the Patanjali brand name and its distribution channels, the management is confident of achieving the projected turnover of over Rs. 15,000 Cr for FY21.

Adequate liquidity position post-acquisition: During the period RSIL was under the IBBI resolution, it managed its working capital needs by getting advance payments against orders from its own super distributors. Furthermore, RSIL's cash conversion cycle remains healthy, mainly driven by a low sales realisation period each month. Overall, RSIL's liquidity position remains adequate, considering the availability of undrawn limits of over Rs. 300 Cr as on 31 March 2020 and unencumbered cash and cash equivalent of ~ Rs. 380 Cr (including fixed deposits of Rs. 302 Cr). The company has also planned to raise funds by a public offering of its shares in the near future. The company is also likely to sell its non-core business and stake in its subsidiary companies, as and when required, over the medium term, which will provide further cushion to its long-term liquidity needs. RSIL also does not have any long-term debt obligation until December 2020 as the lenders have allowed a moratorium upto that period for the commencement of term loan repayments. Lenders are also expected to provide additional liquidity support by deferring interest payments for 3 months under the COVID-19 regulatory package announced by the RBI recently.

Credit Risks

Intense competition from other large players in edible oil business: RSIL faces aggressive competition from other major edible oil players that also market value-added products such as animal feed and de-oiled cakes and have deeper distribution networks and financial strength than RSIL. However, the management believes that under the Patanjali group experience, RSIL would be able to compete effectively with such players.

Moderate profitability and its interest coverage indicators: RSIL's operating profit margins remained below 3-4% owing to limited value addition in this industry. The majority of its revenues are generated from the palm oil and soya oil segments, which remain highly competitive, with the presence of a large number of players. Additionally, RSIL imports crude oil, viz. crude palm oil (CPO), crude sunflower oil and soya degum oil, among others, which covers 75% of its total raw material requirements for its refining units; thus, it is exposed to forex fluctuation risks. Due to the company's low operating margins and high interest obligations, the interest coverage ratio is expected to remain moderate over the medium term. However, the new management has focused on plugging various revenue leakages in supplier/distributor systems and proposes to introduce various new products/brands with value addition to generate high profitability margins.

Exposed to fluctuations in raw materials prices, forex fluctuations and regulatory changes: RSIL's raw material purchase costs constitute around 90% of its total operational costs, and thus, its business is exposed to fluctuations in raw material prices (majorly oil seeds and CPO). The raw material cost is highly dependent on the agro-climatic conditions, cost of imports, government interference in fixing-up the prices and so on. Due to the scarcity of palm plantations in India, RSIL also imports 75% of its raw material requirement (CPO from Malaysia and Indonesia and so on); thus, it is exposed to volatility in foreign exchange rates. However, the management had articulated that the company has a board-approved hedging policy to fully cover forex fluctuation risks. The Government of India also effects changes in the import duty structure of CPO and refined palm oil from time to time, which directly affects the business of refining units in India.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of Ruchi Soya Industries Limited. BWR has also considered the benefits of its business and financial synergies with Patanjali Group. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

The rating is sensitive to RSIL's performance in FY21, including the turnover, profitability margins, debt coverage metrics, its ability to garner funds through a stake sale, and divestment in its stake in its wholly owned subsidiaries and non-core assets.

Positive: The rating could be revised upwards if the company is able to quickly ramp-up the operations of its existing units, by leveraging the benefits of parent support, besides raising funds by selling its non-core business and the diversevement of its stake in subsidiaries over the medium term.

Negative: RSIL was recently acquired by Patanjali Group in December 2019; the new management is yet to ramp-up operations to satisfactory levels and improve its operational efficiency over the medium term. Thus, any delay in ramping-up its operations and generating low operating profitability margins than projected will impact its credit profile over the medium term.

COMPANY PROFILE

Ruchi Soya Industries Limited (RSIL) was established in 1986 and was earlier promoted by Mr. Dinesh Shahra. It is listed on both the BSE and NSE. It is one of the largest integrated oilseed solvent extraction and edible oil refining companies in India, with a product portfolio that includes edible oils, soya food, premium table spread, vanaspati and bakery fats. It also manufactures soy meal, lecithin and other food ingredients. It has plants in 23 locations in India. RSIL also has access to the palm plantation in south India, having an yielding area of over 40,000 ha. It also owns 85.2 MW of windmill assets. The most popular brands of RSIL are Nutrela, Mahakosh, Sunrich and Ruchi Gold.

Patanjali Group acquired RSIL under the NCLT route in December 2019. The effective date and closure date of the resolution plan was 06 September 2019 and 18 December 2019, respectively. Patanjali Group (through Patanjali Consortium Adhigrahan Pvt Ltd) paid Rs. 4,400 Cr, including Rs. 4,235 Cr towards the settlement of admitted claims (secured and unsecured), Rs. 115 Cr towards capex/working capital for RSIL's operations and balance Rs. 50 Cr towards acquisition cost expenses. For this acquisition, Patanjali Group had invested ~ Rs. 1104.75 Cr by way of an equity infusion of Rs. 204.75 Cr and remaining as NCD/preference shares of Rs. 900 Cr. Currently, under the Patanjali management, RSIL is focusing on ramping up its operations with the introduction of new brands and increasing customer base to improve its sales and profitability.

KEY FINANCIAL INDICATORS

Particulars	FY19 (Audited)	9MFY20 (Un-audited)
Total Operating Income (Rs. Crs)	12756.39	9926.82
EBITDA (Rs. Crs)	167.18	327.17
Profit Before Tax (Rs. Crs)	76.72	247.20
Total Tangible Net worth (Rs. Crs)	(5994.09)	1895.54
Total Debt to Equity Ratio (times)	(1.32)	2.02
Leverage (N.Debt/EBITDA) (times)	44.77	9.11

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years (including withdrawn/suspended ratings)

S. No	Name of the facility	Current Rating (2020)			Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable		
		Type (Long Term/Short Term)	Amt. (Rs. Crs)	Rating			
Bank Loan Facilities							
					2019	2018	2017
1	Fund Based (FB)	Long Term	3200.00	BWR BBB+/Stable	N.A.	N.A.	N.A.
	Fund Based (FB)	Short Term	95.25	BWR A3+			
	Non Fund Based (NFB)	Short Term	(350.00)	BWR A3+			

#Annexure I

Details of Bank Facilities rated by BWR

S No.	Name of the Bank	Type of Facility	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	State Bank of India (Lead Bank)	Cash Credit Term Loans Short-Term Loans BG/LC	200.00 1000.00 95.25 -	- - - (200.00)	**1295.25**
2	Union Bank of India	Cash Credit Term Loans BG/LC	100.00 500.00 -	- - (100.00)	**600.00**
3	Allahabad Bank	Cash Credit Term Loans BG/LC	50.00 250.00 -	- - (50.00)	**300.00**
4	Syndicate Bank	Cash Credit Term Loans	200.00 200.00	- -	**400.00**
5	Punjab National Bank	Cash Credit Term Loans	250.00 450.00	- -	**700.00**
TOTAL			**3295.25**	**(350.00)**	**3295.25**

Hyperlink/Reference to applicable Criteria

- [General Criteria]
- [Approach to Financial Ratios]
- [Short term Debt]
- [Manufacturing Companies]

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