RATING RATIONALE

27 August 2021

Ruchi Soya Industries Limited

Brickwork Ratings upgrades the long- and short-term rating for the Bank Loan Facilities amounting to Rs. 3622.79 Crs and withdraws the short-term rating for the short-term facility of Rs. 95.25 Cr of Ruchi Soya Industries Limited.

Particulars:

Facility	Amount (Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous (May 2020)^	Present
Fund based CC/WCDL Term Loans ECL	800.00 2400.00 -	**1095.00** **2372.83** **54.96**	**Long Term**	BWR BBB+/Stable	**BWR A-/Stable (Upgrade)**
Short term Loan	95.25	**-**	**Short Term**	BWR A3+	**Rating Withdrawn****
Non Fund Based BG/LC Proposed standby LC	(350.00) -	**(550.00)** **100.00**	**Short Term**	BWR A3+	**BWR A2+ (Upgrade)**
Total	3295.25	**3622.79**	**Rupees Three Thousand Six Hundred and Twenty Two Crores and Seventy Nine Lakhs Only**		

*Please refer to the BWR website www.brickworkratings.com/ for the definition of the ratings.
**The rating of its short-term loan of Rs. 95.25 Cr stands withdrawn based on the confirmation of the said facility being closed by its lender.
^BWR issued a Rating Not Reviewed advisory on 21.05.2021 for the previous ratings.
Details of bank loan facilities are given in Annexure I.

RATING ACTION / OUTLOOK

The upgrade in the ratings of Ruchi Soya Industries Limited (RSIL or the company) factors in significant growth in its scale of operations since its acquisition by Patanjali Group, driven by growth in the sales volume of the edible oil business aided by the addition of other value-added products in its portfolio. RSIL also derives benefits from a strong parentage and operational synergies with Patanjali Group, one of the leading brand names in the FMCG sector, and expansion in its existing distribution network. RSIL has also reported substantial growth in its operating margins on account of operational efficiencies during FY21 and increasing sales of other value-added products such as honey and protein atta. The rating upgrade also factors in the improvement in its financial risk profile on account of healthy growth in its cash accruals. Brickwork Ratings (BWR) notes that the company plans to launch a follow-on public offer

(FPO), which will raise additional liquidity of around Rs. 4300 Cr in the current financial year. The management has planned to prepay its term loan facilities by over Rs. 1800 Cr, which will lead to an improvement in its financial risk profile and other credit metrics substantially over the medium term. The ratings also favorably factor in RSIL's strategically located port-based, as well as inland, edible oil manufacturing and storage facilities at various oil seed producing locations in the country, which provide logistic advantages, besides well-established brands in its diversified product portfolio.

The ratings are, however, constrained by the competitive nature of the industry with the presence of a large number of established players and risks associated with the agro-based nature of products pertaining to the availability of oil seeds, regulatory risk given the commoditised nature of products, FX fluctuation risks and a restriction on hikes in sale prices as it is an essential commodity.
BWR believes that 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 is able to sustain growth in its operations on a QoQ basis, reduce debt levels through proceeds from the launch of the FPO and maintain its robust liquidity position over the medium term. The rating outlook may be revised to Negative in case it fails to report revenue and records profitability at lower-than-expected levels.

DESCRIPTION OF KEY RATING DRIVERS

Credit Strengths-:
Established market position: 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 caters to 4,000+ distributors across the country, reaching over 1 million retail outlets. RSIL's product portfolio comprises edible oils, non-edible oils, vanaspati, oleo chemicals, speciality fats and other agro-products. Ruchi Gold, Nutrela and Mahakosh are some of the prominent brands in the edible oils sector, with products being well-positioned in the market. The management also added some value-added products, such as blended oils, flour and honey, in its current product portfolio, which resulted in an increase in its market share.

Strong operational synergies with PAL and access to its longstanding distribution channel: The company continues to derive benefits in terms of enhancing its market coverage through Patanjali Ayurved Limited's (PAL's) distribution network. PAL has established its market position in a wide range of FMCG products, covering cosmetics, food and health, with special emphasis on its ayurvedic content. It is growing its distribution network of super distributors, distributors, retailers and owned mega stores, besides direct supplies to CSD (canteen stores department) and various government agencies. Patanjali is also a prominent brand name in the market, strongly associated with Yoga Guru Swami Ramdev, who is popular in India and abroad.

Significant growth in its scale of operations with an improvement in operating margins during FY21: Despite the COVID-19 pandemic, post acquisition by Patanjali Group, RSIL's revenues and profitability levels have increased on a QoQ basis due to various factors, including shifting into the FMCG space with the launch of value-added products such as Nutrela honey and high-protein atta, improvement in crushing capacity utilisation (underutilisation earlier due to the non-availability of WC limits), utilization of the synergy of the distributor and supply chain network of Patanjali Group and penetration into new markets through an addition of distributors. RSIL also acquired the biscuits and other bakery products business of Patanjali Group for a consideration of Rs. 60 Cr, which will also add up to its revenue and profitability levels within the current financial year.

Healthy financial risk profile: The company's healthy financial risk profile is well-supported by healthy cash accruals of Rs. 814.02 Cr, and an adequate net worth of Rs. 2546.56 Crs, in FY21. Its liquidity is likely to remain strong, indicated by cash accruals of over Rs. 1100 Cr, coupled with additional cash inflows of ~ Rs. 4300 Cr expected through the launch of the FPO during the current financial year. Furthermore, the management has not planned for major debt-funded capex (apart from routine capex, which will be funded through available liquidity and internal accrual), and thus, the financial risk profile, along with its liquidity position, is expected to be strong over the medium term.

Credit Risks-:

Intense competition from other large players in the edible oil business: RSIL faces aggressive competition from other major edible oil players in the market. The edible oil sector has significant established players also entering value-added products such as animal feeds and de-oiled cakes, with deeper distribution networks and financial strength. RSIL's pricing power and profitability are likely to be impacted by the entrenched competition.

Exposed to fluctuations in raw materials prices, forex fluctuations and regulatory changes: RSIL's raw material purchase costs comprise 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 the majority of its raw material requirement (CPO from Malaysia and Indonesia and so on); thus, it is exposed to volatility in foreign exchange rates. The Government of India also affects 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.

LIQUIDITY POSITION: Adequate

For FY22, its annual fixed debt obligation is at Rs. 159.33 Cr against the estimated cash accruals of over Rs. 1142.28 Cr. This reflects its adequate liquidity position. Furthermore, RSIL has not planned for any debt-funded capex (apart from routine capex, which will be funded through available liquidity and internal accrual) over the medium- to long-term period considering sufficient capacities are available to enhance its scale of operations (presently, the capacity utilisation of all its units is less than 50% levels). RSIL has unutilised bank lines of Rs. 478.24 Cr (including enhancement of Rs. 295 Cr as assessed by its consortium lenders). The utilisation of its working capital limits stood moderate at 77.98% over the past 12 months ended July

202,1with unencumbered cash and cash balance of Rs. 46.27 Crs as on 31 March 2021. BWR notes that the management has filed a Draft Red Herring Prospectus in the current financial year to raise Rs. 4300 Cr by way of an FPO. Around 44% of funds raised (Rs. 1892 Crs) will be utilised towards the repayment of its secured term loans, as informed by the management.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

To arrive at its ratings, BWR has considered the standalone performance of PAL. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Positive: The company's ability to sustain its revenue and profitability growth despite facing competition in the industry, reduce debt levels through proceeds from the launch of the FPO and maintain its robust liquidity position over the medium term

Negative: Lower profitability with a stretched working capital cycle weakening its financial risk profile or reporting a lower sales volume than estimated over the medium term

COMPANY PROFILE:

RSIL, established in 1986, was earlier promoted by Mr. Dinesh Shahra. It is listed on both the BSE and NSE. It manufactures edible oils, soya food, premium table spread, vanaspati and bakery fats. It is also the highest exporter of soya meal, lecithin and other food ingredients from India. RSIL has plants in 23 locations in India. It has 90+ depots (with storage and other logistical facilities), which serve 4,000+ distributors across the country, reaching over 1 million retail outlets. RSIL also has exclusive palm oil procurement rights to over 2 lakh hectares of land in India with a potential to increase oil palm cultivation. It also owns 85.2 MW of windmill assets. The most popular brands of RSIL are Nutrela, Mahakosh, Sunrich and Ruchi Gold.

RSIL was acquired by the Patanjali Group (through NCLT route) in December 2019 for Rs. 4400 Cr (funded by equity/USL - Rs. 1104.75 Cr and secured debt - Rs. 3292.25 Cr).

FINANCIAL PERFORMANCE:

Key Parameters	Units	2020 (A)	2021 (A)
Turnover	Rs. crs	13129.27	16318.36
EBITDA	Rs. crs	426.49	954.03
PAT	Rs. crs	7672.02	680.77
Total TNW	Rs. crs	1855.05	2546.56
Total Debt/Total TNW	Times	1.95	1.37
ISCR	Times	10.82	2.57

Status of non-cooperation with previous CRA- Not Applicable

Any other information: Nil

Current Rating (2021)				**Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable**		
Name of the Facility	**Type (Long Term/Short Term)**	**Amt. (Rs. Cr)**	**Rating**			

Bank Loan Facilities

20.08.2021

Facility	**Tenure**	**Amt. Rs. Cr**	**Rating**
FB	Long Term	3522.79	BWR A-/Stable
FB	Short Term	-	Rating Withdrawn
NFB BG/LC Proposed standby LC	Short Term	(550) 100.00	BWR A2+
Total		**3622.79**	

22.05.2020

Facility	**Tenure**	**Amt. Rs. Cr**	**Rating**
FB	Long Term	3200.00	BWR BBB+/Stable
STL	Short Term	95.25	BWR A3+
NFB	Short Term	(350.00)	BWR A3+

2019	2018
	N.A.

COMPLEXITY LEVELS OF THE INSTRUMENTS: Simple
For more information, visit **www.brickworkratings.com/download/ComplexityLevels.pdf**

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Short Term Debt
- Manufacturing Companies

Analytical Contacts	
[Peeush Middha] Manager - Ratings [Board: +91 172 5032295/96] peeush.m@brickworkratings.com	[Ashwini Mital] [Director – Ratings] [Board: +91 172 5032295/96] ashwinimital@brickworkratings.com
1-860-425-2742	media@brickworkratings.com

Ruchi Soya Industries Limited
ANNEXURE I
Details of Bank Facilities rated by BWR

S No.	Name of the Bank	Type of Facility	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1	State Bank of India	Cash Credit/WCDL ECL/TL BG/LC	200.00 1004.16 -	- - (200.00)	**1204.16**
2	Union Bank of India	Cash Credit/WCDL ECL/TL BG/LC	100.00 497.06 -	- - (100.00)	**597.06**
3	Indian Bank (Erstwhile Allahabad Bank)	Cash Credit/WCDL ECL/TL BG/LC	50.00 251.20 -	- - (50.00)	**301.20**
4	Canara Bank (Erstwhile Syndicate Bank)	Cash Credit/WCDL ECL/TL BG/LC	200.00 211.48 -	- - -	**411.48**
5	Punjab National Bank	Cash Credit/WCDL ECL/TL BG/LC	250.00 463.89 -	- - -	**713.89**
6	Proposed WC limits	Cash Credit/WCDL Standby LC	295.00 -	- 100.00	**395.00**
TOTAL			**3522.79**	**100.00**	**3622.79**

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