A Detailed Analysis on FMCG Giant Ruchi Soya Industries

By Pooja Sree Pombarla & Satish Ravi Nandan

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Keywords: profitability ratios, liquidity ratios, valuation ratios, moving averages, relative strength index, average directional index, bollinger band, chande kroll/trailing stop, fractals, fibonacci, head and shoulders pattern.

GJMBR-C Classification: JEL Code: F65, G10

Strictly as per the compliance and regulations of:
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I. INTRODUCTION

‘Ruchi Soya Industries’ is one among the top five FMCG companies in India. It is one among the 50 fastest growing FMCG companies in world. ‘Ruchi Soya Industries’ is a pioneer and market leader in edible oil, vanaspati, bakery fats and soya food business in India. Over two decades, it has been in the business of edible oils by offering a cooking medium to match the various tastes of this vast and varied nation and alongside manufacturing textured soya protein and vanaspati. ‘Ruchi Soya Industries’ is the first exporter of soya bean meal from India.

‘Ruchi worldwide ltd’ is the only subsidiary of ‘Ruchi Soya Industries’. The company plants are located at Indore, Shajapur, Narasinghpur and Mandla in Madhya Pradesh, Mangalore in Karnataka, Raigad and Nagpur in Maharashtra, Haldia in West Bengal, Ghandhidham in Gujarat, Tiruvallur in Tamilnadu, Sriganganagar and Bundi in Rajasthan. It has been listed on NSE (National stock exchange) and BSE (Bombay stock exchange).

On 6th January, 1986 ‘Ruchi Soya Industries’ was incorporated, and it is promoted by General goods Pvt ltd and Ruchi Pvt ltd. The company shares were listed on 21st January 1986. In 1994, the company has proposed to expand its capacity to increase wide range of products. It has entered a marketing tie up with a reputed international firm in 1995. To increase soya bean cultivation, it has signed MOU with Ethiopian Government in 2010. In the same year, Ruchi Soya has acquired ‘Palm Tech’, the largest palm oil unit in Andhra Pradesh. In 2012, Ruchi Soya has signed MOU with ‘Thermax’ and in the same year it was in the Global Top 250 Consumer Products Industry by Deloitte. In the year 2013, it has announced two joint ventures one with ‘J Oil Mills’ and ‘Toyota’ and the other with ‘Kagome’ and ‘Mitsui’. It has acquired oil refinery business of ‘Ruchi infrastructure ltd’.

In 2015, it is bestowed with ‘Golboil Diamond award’ for being top importer in edible oil business and it was in the list of Deloitte top 250 Global FMCG companies. To enhance the awareness of soya in Karnataka and Maharashtra it has tied up with PFNDAI (Protein foods and nutrition development association of India). In 2016, Ruchi Soya Industries’ received a special recognition at Dun & Bradstreet, India’s top 500 companies & corporate awards. To support farmers in availing the benefits of digital banking post it has entered into a partnership with SBI and has launched ‘Kisan Kalyan Ayojan’. Because of its total debt of 12,000 crores it has entered ‘Corporate Insolvency Resolution process’ in December, 2017. The company shares were delisted on 16th November, 2019. ‘Patanjali Ayurved’ has acquired the debt ridden ‘Ruchi Soya Industries’ for 4350 crores in december, 2019. From 24th January, 2020 was relisted on NSE with price of re.2 per share. Within 6 months the of its listing in stock exchange, its price has soared to Rs.1519.65 on June, 2020.

II. NEED FOR THE STUDY

The purpose of this analysis is to capitalize on pricing opportunities and trends that are identifiable in the market for each share of ‘Ruchi Soya Industry’. The methodology is based on the historical financial statements, historical price of the stock, historical market activity, past trading volumes to identify the pattern.

a) Objectives

- To ascertain how the basic tools of fundamental and technical analysis have applied to arrive at the best investment decisions.
- To interpret the ratios and charts prepared by using the above techniques.
- To identify the factors that influences the investment decision making i.e., trends and patterns in the stock prices.
III. RESEARCH METHODOLOGY

Data is collected from secondary source. The secondary data comprises of audited reports, books, and data-mining (exploring data through internet).

a) Limitation of the study
• The data collected from secondary source, which may not be inaccurate.
• The time constraint is one of the limitations. Due to inadequate time it is not possible to analyze all aspects relevant to the study.
• The fundamental analysis study was done for past 5 years from March, 2016 to March, 2020. Whereas, for technical analysis the study was conducted for more than 5 years i.e., from January 2016 till June 2020.

IV. IMPORTANT TERMS

a) Key performance indicators

1) Liquidity Ratios: Liquidity ratio refers to the ability of a concern to meet its current obligation as and when they become due. To measure the liquidity of a firm/concern, the following ratios can be calculated
• **Current Ratio**: Current ratio is defined as a relationship between current assets and current liabilities. It is also called as ‘working capital ratio’. It is most widely used to make the analysis of a short-term financial position or liquidity of a firm.

   \[
   \text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}
   \]

   A relatively high current ratio is an indication that the firm is liquid and can pay its current obligations in time as and when they become due and vice versa for relatively low current ratio.

• **Quick Ratio**: Quick ratio is also known as ‘Acid test ratio’, is more rigorous test of liquidity than current ratio. Quick ratio is defined as a relationship between quick/liquid assets and current liabilities.

   \[
   \text{Quick ratio} = \frac{\text{Quick (or) liquid assets}}{\text{Current liabilities}}
   \]

   The higher the Quick ratio, the better is the company’s liquidity and financial position and vice versa.

2) Profitability Ratios: Profitability ratios are a class of financial metrics that are used to assess a business’s ability to generate earnings relative to its revenue, operating costs, balance sheet assets, and shareholders’ equity over time, using data from a specific point in time. The various profitability ratios are discussed below.

• **Net Profit Ratio**: It establishes the relationship between net profit (after taxes) and sales, and indicates the efficiency of the management in manufacturing, selling, administrative and other activities of the firm.

   \[
   \text{Net profit} = \frac{(\text{Net profit after tax})}{\text{Net sales}} \times 100
   \]

   This ratio also indicates the firm’s capacity to face adverse price competition, low demand etc. The higher the Net profit ratio, the better is the profitability.

• **Return on Equity Ratio (ROE)**: This ratio is very important for the present and prospective shareholders as well as management. It helps in measuring the overall efficiency of a firm. ROE explains the relationship between profits of a company and its shareholders equity.

   \[
   \text{ROE} = \frac{(\text{Net profit after tax} – \text{preference dividend})}{\text{Equity share capital}}
   \]

   The higher the ratio, the better it is.

   • **Return on Capital Employed Ratio (ROCE)**: ROCE explains the relationship between the Company’s profitability, profits and capital efficiency. It not only measures the overall efficiency of business but also helps in evaluating the performance of various departments.

   \[
   \text{ROCE} = \frac{\text{Earnings before Interest and tax}}{\text{Capital employed}}
   \]

   Capital employed = Total assets - Current liabilities.

   A higher percentage on ROCE will satisfy the owners of the company. Hence, higher the ratio, the better it is.

• **Return on Assets (ROA)**: It explains the relationship between net profits (after taxes) and assets employed to earn that profits.

   \[
   \text{ROA} = \frac{\text{Net profits after tax}}{\text{Total assets}}
   \]

   The higher the ROE, the better is the profitability.

• **Debt to Equity Ratio**: Total Debt to Equity ratio is calculated to measure the relative claims of outsiders and owners. It explains the relationship between external equities or outsiders fund and internal equities or the shareholders fund.

   \[
   \text{Debt to Equity Ratio} = \frac{\text{Outsiders fund (or) external equities}}{\text{Shareholders fund (or) internal equities}}
   \]

   A relative high Debt to Equity ratio indicates higher risk to shareholders and vice versa.

3) Valuation Ratios: Valuation is a process of determining the current or projected worth i.e., determining fair value of an asset or a firm. Various valuation ratios are discussed below

• **Price to Book Value Ratio (P/B)**: It explains the relationship between market value per share of a
firm and its book value per share. Book value per share indicates net worth per equity share and the ratio of market value to book value is used to analyze its stock market position.

\[ \text{P/B ratio} = \frac{\text{Market value per share}}{\text{Book value per share}} \]

P/B ratio under 1 is considered as good for solid investment.

- Earnings Yield Ratio: Earnings yield ratio explains the relationship between earnings per share and market value of shares.

\[ \text{Earnings Yield ratio} = \frac{\text{(Earnings per share/ Market price per share)}}{100} \]

Higher the Earnings yield ratio, the better it is.

V. Technical Analysis

1. Moving Average (MA): Moving Average is the average of closing prices of the last “n” number of candles. It is computed by adding all the closing prices of a share price for the last “n” periods and then the sum is divided by the total number of periods for which it was considered.

- It removes the short-term unwanted or misleading fluctuations and shows the direction and strength of the current trend.
- It also acts as support and resistance and tells us when to enter and exit the market.

2. Relative Strength Index (RSI): Relative Strength Index is a momentum oscillator that checks the impact and extent of the price changes of the share and it gives the result whether the price is overbought or oversold or is in the tradable zone.

- In RSI, if the stock is considered as overbought if the RSI is above 70 and if it is below 30, then it is considered as oversold.
- The formula for calculating RSI for a pre-defined period is as follows,

\[ \text{RSI} = 100 - \left[ \frac{\text{Average Loss}}{100 + \text{Average Gains}} \right] \]

3. Average Directional Index (ADX): The ADX is often referred to as a strength indicator. It gives us a clear picture of the strength of the trend on which the share price is moving whether it is upward or downward. This indicator is based on the moving average (MA) which is mentioned above.

ADX takes MA as the base and calculates the strength of the trend and gives us the result ranging from zero (0) to one hundred (100). The analysis will follow as per the below.

- ADX value of, 0-25 will reflect weak trend, 25-50 refers to strong trend, 50-75 to stronger trend and 75-100 to extreme strong.

4. Bollinger Band: It is as technical analysis tool which uses two trendlines based on positive and negative standard deviations respectively which are away from the moving average. It can be adjusted based on our ease and preferences.

5. Chande Kroll/ Trailing Stop: It is used to identify the stop loss for the share be it long position or short position. It uses variation of prices, direction, and average true range (ATR) of the share’s volatility.

6. Fractals: Fractals indicate the trend reversal of a share based on our consideration of period and number of candles.

7. Fibonacci: Fibonacci retracement levels are considered as high (resistance) and low (supply) points on chart. The major key ratios are placed horizontally forming a grid and are used to identify the possible price reversal points.

8. Head and Shoulders Pattern: This chart pattern consists of three peaks with the middle peak as the highest and often considered as “Head”. The other two peaks and considered as left shoulder and right shoulder. The head and shoulder pattern gives us the scenarios of trend reversal from bullish to bearish.

VI. Analysis on Key Performance Indicators

The following are the key performance indicators of ‘Ruchi Soya Industries’.

<table>
<thead>
<tr>
<th>Liquidity Ratios</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio</td>
<td>0.8</td>
<td>0.64</td>
<td>0.18</td>
<td>0.2</td>
<td>2.13</td>
</tr>
<tr>
<td>Quick ratio</td>
<td>0.62</td>
<td>0.53</td>
<td>0.08</td>
<td>0.1</td>
<td>1.03</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Profitability Ratios</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Profit Ratio</td>
<td>(3.83)%</td>
<td>(6.78)%</td>
<td>(50.10)%</td>
<td>0.60%</td>
<td>58.48%</td>
</tr>
<tr>
<td>Return on Equity(ROE)</td>
<td>(42.91)%</td>
<td>(122.80)%</td>
<td>122.52%</td>
<td>(1.71)%</td>
<td>227.59%</td>
</tr>
</tbody>
</table>
VII. Findings  

a) For liquidity ratios  
- There is an increase in Current ratio from 0.80 in 2016 to 2.13 in 2020, which states that there is an improvement in liquidity position of the firm.  
- Similarly, we could see the Quick ratio is 1.03 in 2020, which indicates that the firm’s liquidity position is good.  
- In 2018, we could see both the current ratio and liquid ratio have recorded the lowest value i.e., 0.18 and 0.08. Hence, during that period the company was not able to pay its current obligations when they became due.

b) For profitability ratios  
- In 2016, 2017, 2018 the Net profit ratio is negative i.e., the company has encountered losses. But in 2020, the ratio is 58.48%, which indicates that the company’s financial health is recovering and is generating profits from its sales.  
- Return on Equity is 227.59% in 2020, which is a good indicator and is generating income and growth from its equity.

- ROCE in 2020 is 4.85% which is less, when compared 114.93% in 2018.  
- ROA is negative in 2016, 2017 and 2018. In 2020, the ROA is 97.51%, which states that the company is earning more money on less investment.  
- Debt to Equity ratio in 2016 and 2017 is 1.81% and 4.51%. The ratio was higher in these two years, which means that the company was aggressive in financing its growth through debt, whereas in 2020 it is 1.06% which is less when compared to 2016 and 2017.

c) For valuation ratios  
- P/B ratio is high in the year 2020 i.e., 1.50 which is more than 1, which is not a good indicator. P/B ratio is negative in the year 2018 and 2019 which states that there are losses above the stockholder’s equity and is not considered good for investment.  
- Earnings yield ratio is negative in 2016, 2017 and 2018. Whereas, in 2019 and 2020 it is positive, and it is a good indicator.

VIII. Technical Analysis

Source: Zerodha
Monthly Candle with ranging from Jan 2015- Nov 2019 (before delisting).
Findings

- In the span of five years, the share collapsed around 40 points which reflects the bearish look.
- Coming to the primary indicator “Volume”, we can see higher volumes of sell side investors when compared to buy side investors concluding overall the investors are more into selling of shares/taking short position with bearish look.
- Looking into the moving averages (MA),
  - 21 candles moving average (green) is continuously acting as resistance line.
  - 50 candles moving average (red) also acted as strong resistance line during the last quarter of 2017.
- The Bollinger bands with 21 candle average with deviation 3, shows us the bandwidth of the share price. Though the share price touched lower band many times, there is no sign of touching/going towards top band.
- Trailing Stop loss also gives us the suggestion to sell the shares or create short positions the whole time.
- The widely used momentum oscillator RSI is below 40 most of the time and never touched the upper band 70 which reflects that the share never rose/went up.
- The so-called strength indicator ADX shows the lack of strength of the share prices which is good for selling/short of the share.

Findings

- After relisting of the shares in Jan 2020, we can see a rapid increase in the price level of share which gives us the scenario to have a bullish view.
- Three increasing candles or three white soldiers’ pattern have been formed which is a very bullish signal.
- As it broke the resistance during January and February months, and based on trailing stops it was ideal to invest during the second half of February.
- The retracement started during the month of July with almost equal volumes to June rise. Approximately seen, the retracement is more than 30% and is almost 50% which gives an alarming signal to withdraw the investments and the share is about to enter bearish area.
- The next best signal which we get is the Bollinger band. The month’s candles have been touching the upper bands continuously reflecting bullish view and in July, it retraced and fell below, and the next candle was not able to cope up with the acceleration speed of rising.
Findings

- In the day chart after listing, we can see the first retracement in the month of May. It is a marginal retracement and continued its bullish journey.
- After the formation of peak/head, the retracement took place at 61.80% but the price of the share fell again, and it is now below 50%. It shows the bullishness of the stock.
- To conclude, the stock price is now under consideration position. If it breaches above 50% level, buying the stock can be considerable. If it falls below 38.20%, there are chances likely to fall more.

Findings

- The price trend has formed head and shoulders pattern with RSI and ADX both showing bearish look.
- For now, the stock has entered testing area like Fibonacci which is mentioned above.

- The share price likely to be in consideration zone. If it falls below the shoulders, it has higher chances of going down and vice versa.
- If it goes above the shoulder level, it may either make fresh higher highs or may enter testing phase.
where the strength of the share is tested at that point of time pertaining to those market situations.

**IX. Suggestions**

- Most of the investors base their decisions on valuation ratios, as it is considered as best indicator for investment decision for long term. We could see an increase in Earnings Yield ratio, which means the company is satisfying the investors for the financial year, 2020. It is always advisable for long-term investors to look into this ratio for more than 1 year, to base their decision to buy or sell and we could see an increase in only in 2020 so it is better to wait instead of buying.

- Short term investors always take their decisions on liquidity position of the company. Ruchi soya’s liquidity position is quite adequate from past one year. Hence, short term investors can buy shares of this company as their investment will be only for 1 year.

- If we investigate profitability ratios ‘Ruchi soya’ is performing quite better after its acquisition by ‘Patanjali Ayurved’.

- It is also advisable for ‘Ruchi Soya Industries’ to revamp the operations under new management which will help them to improve its credit profile in due course of time.

- After relisting of Ruchi soya shares in stock exchange, we could see a huge rally in share price from Rs.16.20 to Rs.1519.65. It is advisable for SEBI to investigate the reasons for such huge rally in share price.

- On analyzing the technical aspects, we can see an abrupt increase in the price levels and a sudden decrease which is inconsistent for an ideal stock.

- Also, lack of liquidity can be clearly seen in day candle chart which is the nature of risky stock. Therefore, the share is risky to invest with a lot of inconsistency.

- Those who are considering investing can move forward cautiously.

- Coming to long term investing, if the share price breaches above 900-1000 levels in coming months, it would be ideal to invest in the share. If the share does not get enough strength to move up and start falling, the investor may opt for taking short positions below 500-600 price levels.

- Coming to short term investing, as it formed Head and Shoulders pattern, it can be suggested to have a bearish look on the stock and can take a short position whenever it breaches below the shoulders level. If at all the price level enters testing phase by neither falling nor rising, it is advisable to be neutral on the share. It would be ideal to take long position or invest if at all the price rises above 800-850 price levels.

**X. Conclusion**

Buying and selling of any stock/share is not an easy task, if in case the investors wants to make money out of it. Most the investors have lost their money in the past trying to guess either stock price movement or studying alone fundamentals of the company. Technical analysis play an important role in stock market entry and exit and by applying this analysis one can enjoy substantial profits. But technical analysis alone cannot be a solution to all the problems. Hence, the technical analysis must be combined with fundamental analysis to enjoy maximum benefit as it offers a greater insight if used properly. Knowledge in stock market is key factor to success and the technical analysis gives the investor a better understanding of stocks and directs them to go on further from entry or exit, while the fundamental analysis helps the investors to look into various factors like company performance, political and social events etc. Therefore, the fundamental and technical analysis guides the investors by giving a clear idea in making buy or sell decisions. The present research has been conducted to know whether the company guarantees profit/good returns to investors by analyzing various characteristics of ‘Ruchi Soya Industries’ through fundamental and technical analysis. By looking into above analysis, we would like to conclude that the stock has undergone trend reversal patterns from bearish trend to bullish trend from Jan, 2020 to June,2020 and again bullish trend to bearish from June,2020 to till date. Risky Investors can invest in this stock for short term cautiously, but it is not advisable for long term investors with small and medium risk appetite to make an investment in Ruchi Soya stocks. According to our opinion it is not the right time to invest in ‘Ruchi Soya Industries’, but it is advisable for the prospective buyers to adopt a ‘wait and watch technique’.

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