

# THE RISE AND FALL OF RUCHI SOYA: A CASE STUDY ON BUSINESS FAILURE

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## ABSTRACT

*Ruchi Soya, once a prominent player in India's edible oil industry, witnessed a dramatic rise and an equally spectacular fall. This case study delves into the factors that contributed to the failure of Ruchi Soya, examining its corporate governance practices, financial mismanagement, debt burden, and external market pressures. The study also highlights the lessons that can be learned from the downfall of this once-thriving conglomerate.*

**Keywords:** Ruchi Soya, Patanjali, Edible oil, Bankruptcy.

## INTRODUCTION

The story of Ruchi Soya, an Indian agribusiness company, is a striking example of a business that soared to great heights only to plummet into insolvency and bankruptcy. From being one of India's largest edible oil producers and a darling of investors, Ruchi Soya's fortunes took a disastrous turn, leaving a trail of financial turmoil and legal battles. This case study aims to analyze the factors that led to the failure of Ruchi Soya and derive valuable lessons from its downfall (Kattadiyil & Agarwal, 2020).

### Background

Ruchi Soya, founded in 1986 by Dinesh Shahra, initially started as a small solvent extraction plant in Madhya Pradesh. Over the years, the company expanded its operations into various segments of the edible oil industry, including refining, crushing, and packaging. Ruchi Soya became a household name in India, offering a wide range of edible oil brands such as Nutrela, Ruchi Gold, and Mahakosh (Gupta & Gupta, 2023).

## DISCUSSION: REASONS FOR DOWNFALL OF RUCHI SOYA

### Corporate Governance Practices

**Lack of transparency:** One of the fundamental issues at Ruchi Soya was a lack of transparency in its corporate governance practices. There were allegations of related-party transactions and inadequate disclosure of financial information, which eroded investor confidence.

**Family control:** The Shahra family retained significant control over the company, which sometimes led to conflicts of interest and governance challenges. Decisions appeared to be influenced by family dynamics rather than solely in the interest of shareholders.

**Board composition:** The composition of Ruchi Soya's board was criticized for its lack of independent directors and diversity. A more balanced board with external expertise might have provided better oversight (Varma, 2013).

### Financial Mismanagement

4.1. **Rapid Expansion:** Ruchi Soya embarked on an ambitious expansion spree, diversifying into unrelated businesses such as infrastructure, real estate, and renewable energy. This rapid expansion strained the company's resources and diluted its focus on the core edible oil business.

**Excessive debt:** The company's aggressive acquisition strategy was primarily financed through debt. By 2017, Ruchi Soya had accumulated a substantial debt burden, making it highly leveraged and vulnerable to market fluctuations.

**Accounting irregularities:** Ruchi Soya faced allegations of financial irregularities, including overstated profits and misleading financial reporting. These allegations further eroded investor trust (Kattadiyil & Islamov, 2021).

### **Debt Burden**

**Debt overhang:** Ruchi Soya's debt overhang became a major challenge, with interest payments consuming a significant portion of its revenues. The company struggled to service its debt, leading to liquidity problems.

**Debt restructuring attempts:** In an attempt to alleviate its debt burden, Ruchi Soya initiated debt restructuring talks with its lenders. However, these negotiations were protracted and did not yield a sustainable solution.

**Legal battles:** The Company found itself embroiled in legal battles with creditors and financial institutions, further complicating its financial situation (Steinweg et al., 2017).

### **External Market Pressures**

**Price volatility:** The edible oil industry is susceptible to price fluctuations due to factors like changes in crop yields and international commodity prices. Ruchi Soya was adversely affected by these volatile market conditions.

**Competitive landscape:** Ruchi Soya faced stiff competition from both domestic and international edible oil producers, making it challenging to maintain market share and profitability.

**Regulatory changes:** Changes in government policies and regulations, such as import tariffs and quality standards, had a significant impact on Ruchi Soya's business operations (Belwal, 2022).

### **Bankruptcy and Acquisition**

**Insolvency proceedings:** Ruchi Soya was eventually dragged into insolvency proceedings under the Insolvency and Bankruptcy Code of India (IBC). This marked a low point in the company's history, as it was unable to meet its financial obligations.

**Acquisition by patanjali ayurveda:** In 2019, Ruchi Soya was acquired by Patanjali Ayurveda, a leading Indian consumer goods and ayurvedic products company, through the IBC process. The acquisition aimed to revive the struggling edible oil producer (Abhishek, 2022).

## **LESSONS LEARNED**

The failure of Ruchi Soya provides several valuable lessons for businesses and investors:

**Prudent financial management:** Sound financial management is paramount. Companies should avoid excessive debt accumulation and focus on sustainable growth strategies.

**Transparent governance:** Maintaining transparency and good corporate governance practices is essential to build and sustain investor trust.

**Diversification strategy:** Diversification should be undertaken with caution, ensuring that new ventures align with the core business and do not overextend the company's resources.

**Risk management:** Effective risk management strategies should be in place to address market volatility and external pressures.

**Adaptability:** Businesses should be adaptable and responsive to changing market conditions and regulatory environments.

**Stakeholder communication:** Open and honest communication with stakeholders is crucial during challenging times to maintain confidence and support (Goswami & Aakarshi, 2023).

## CONCLUSION

The downfall of Ruchi Soya is a cautionary tale for businesses and investors alike. A combination of corporate governance issues, financial mismanagement, debt burden, and external market pressures led to the company's dramatic failure. However, the acquisition by Patanjali Ayurveda offers a glimmer of hope for its revival. The case of Ruchi Soya underscores the importance of prudent financial practices, transparent governance, and adaptability in today's competitive business environment. Ultimately, it serves as a reminder that even industry giants can fall if they do not heed the lessons of history.

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