

Sayaji Seeds LLP

July 05, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities@	5.00	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities*	13.00	CARE BBB+ (CE); Stable / CARE A3+ (CE) [Triple B Plus (Credit Enhancement); Outlook: Stable / A Three Plus (Credit Enhancement)]	Reaffirmed
Total Facilities	18.00 (₹ Eighteen Crore Only)		

Details of instruments/facilities in Annexure-1.

*backed by unconditional and irrevocable corporate guarantee extended by Sayaji Industries Limited (SIL; rated CARE BBB+; Stable / CARE A3+); @Standalone limit which is not backed by corporate guarantee.

Unsupported Rating²	CARE BB / CARE A4 [Reaffirmed]
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Note: Unsupported ratings do not factor in the explicit credit enhancement.

Detailed rationale & key rating drivers for the credit enhanced debt

The ratings of the bank facilities of Sayaji Seeds LLP (SSL) are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by SIL (rated CARE BBB+; Stable/CARE A3+).

Detailed rationale and key rating drivers of SIL

The ratings assigned to the bank facilities/instrument of Sayaji Industries Limited (SIL) continue to derive strength from its experienced promoters along with established track record of around eight decades in maize processing industry, strong product profile with presence in value-added starch derivatives and established sales network with reputed and diversified clientele. The ratings continue to factor its moderate albeit growing scale of operation, moderate debt coverage indicators and lean operating cycle.

The ratings, however, continue to remain constrained on account of its moderate profitability which declined during FY22 (FY refers to the period from April 1 to March 31), moderately leveraged capital structure, susceptibility of its profitability to volatile raw material price and foreign exchange fluctuation risk. The ratings are further constrained due to its presence in the competitive agro processing industry.

Rating sensitivities for the guarantor; SIL

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

- Significant increase in scale of operation with total operating income (TOI) of over Rs.850 crore and improvement in profitability with profit before interest, lease, depreciation and tax (PBILDT) margin above 10% on sustained basis
- Improvement in its capital structure with overall gearing below 1.00x on sustained basis

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

- Decline in profitability with PBILDT margin below 6.50% on sustained basis
- Increase in total debt leading adj. overall gearing above 2x or total debt to PBILDT exceeding 5x on sustained basis

Key Rating Drivers of SSL i.e. Unsupported Rating

The unsupported ratings of SSL, based on its standalone credit assessment, are constrained by its small scale of operation, thin profitability, losses at PAT level, presence of the firm in competitive seed industry and seasonality associated with business having dependency on the vagaries of monsoon.

The unsupported ratings are, however, derived strength from experienced promoters and synergy derived from SSL being part of Ahmedabad based Sayaji group and its wide distribution network.

Rating Sensitivities for the SSL

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

- Consistent increase in scale of operation with improvement in the profitability and earning net profit on consistent basis
- Significant improvement in the guarantor's profile i.e. SIL

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

² As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019.

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

- Continued incurring losses
- Deterioration in Guarantor's profile

Detailed description of the key rating drivers of SIL
Key Rating Strengths
Experienced promoters and established track record of eight decades in the manufacturing of starch and starch derivatives

Established in 1941, as Hindustan Colors and Chemicals, Sayaji Industries Limited SIL is one of the oldest maize processing companies in the country with track record of over eight decades. SIL is promoted by Mehta family and is presently managed by Mr. Priyam Mehta along with his son Mr. Varun Mehta and Mr. Vishal Mehta who have vast experience in the industry. Further, the team is assisted by tier-II staff that has been associated with the company since long. Over the years it has gradually developed facilities to manufacture modified starches and other value-added starch derivatives like liquid glucose, dextrose monohydrate (DMH), anhydrous dextrose (ADH), sorbitol, etc. During FY22, it had undertaken capacity expansion of its maize grinding capacity from 710 TPD to 850 TPD.

SIL also has 4 MW of coal-based power plant and 1.5 MW of gas-based power plant which meets 60-70% of the company's internal power requirement. Promoters have also set-up other entities namely NB Commercial Enterprises Limited (NBC; CARE BBB-; Stable/CARE A3), Alland and Sayaji LLP (ASL; CARE BBB+(CE); Stable/CARE A3+(CE) and CARE BB+/CARE A4+) and Sayaji Seeds LLP (SSL; CARE BBB+(CE); Stable/CARE A3+(CE) and CARE BB/CARE A4). NBC is engaged in manufacturing of HDPE barrels catering to the demand of chemical, food, pharmaceutical and lube-oil industries among others mainly in Gujarat region. ASL is engaged in the manufacturing of spray dried food products like tomato powder, gum arabic powder, cheese powder and fat-based powder. SSL is engaged in the production and marketing of various seeds such as maize, castor, paddy and Wheat among others.

Strong product profile and established sales network with diversified clientele

There are multiple players in the corn starch manufacturing industry, however; few players have presence in all major starch derivatives such as SIL. Starch slurry (from maize grinding) is utilized for producing maize starch powder and various starch-based derivatives. By-products include Hydrol, Maize Gluten, Maize Oil, Oil Cake, Corn Steep Liquor, etc. These products find application in diverse industries viz. textile, paper, pharmaceutical, food and confectionery, cosmetic, paint as well as for poultry and animal feed. In the month of January 2022, SIL commissioned spray dryer unit to manufacture dry food powder leading to further diversification of its product profile. The total cost of the project was Rs.29.78 crore which was funded from the term loan of Rs.16.50 crore and balanced from the internal accruals. Currently, SIL is also undertaking process improvement as well as debottlenecking capex to increase the capacity of its downstream (starch derivatives) products.

During FY22, overall capacity utilization grew across entire product portfolio on the back of strong domestic as well as export demand. Proportion of value-added product remained at around 32% (in terms of sales value) during FY22 as compared with 37% during FY21. Over the years, SIL has established strong marketing and procurement network. SIL has reputed and diversified clientele including reputed companies like Colgate Palmolive India Limited, Hindustan Unilever Limited, FDC Limited, Zydus Wellness Limited and Arvind Limited among others. Sales to its top 10 customers forms around 33% of its net sales in last two years reflecting diversified clientele.

Moderate albeit growing scale of operation, moderate debt coverage indicators and lean operating cycle

Total maize grinding of SIL grew by around 22% on y-o-y basis on the back of strong demand from the end user industries. On a consolidated level, TOI of SIL grew by around 42% to Rs.794.98 crore during FY22 on y-o-y basis on the back of 20% growth in sales volume along with improvement in the average sales realization. SIL's standalone TOI (Rs.766.27 crore in FY22) continued to be the major contributor to its consolidated TOI (Rs.794.98 crore in FY22), with around 96% share in FY22 (96% in FY21). Scale of operation of SIL is expected to grow going forward with enhancement in the maize grinding capacity along with commissioning of the spray dryer unit during FY22 and planned capacity expansion of the starch derivatives product during FY23. Overall, GCA of SIL remained moderate and grew by around 6% on y-o-y basis to Rs.37.30 crore during FY22.

Overall debt coverage indicators of SIL remained moderate marked by PBILDT interest coverage and total debt to GCA of 4.46x and 3.03x during FY22 as compared with 3.86x and 3.97x respectively during FY21. SIL had lean operating cycle of 11 days in FY22 (FY21: 14 days). It generally keeps maize inventory for 20-30 days and procures raw material from major maize producing states i.e. Maharashtra, Madhya Pradesh, Uttar Pradesh and Bihar.

Key Rating Weaknesses
Moderate profitability and moderately leveraged capital structure

PBILDT margin of SIL declined by 302 bps to 6.33% during FY22 on y-o-y basis due to significant increase in the raw material cost along with higher logistics and power and fuel cost. Furthermore, overhead cost also increased during FY22 due to commissioning of the spray dryer unit in the month of January 2022 which had reported losses due to initial phase of operation. PAT margin declined by 58 bps to 2.37% during FY22 over FY21.

Though capital structure of SIL remained moderately leveraged, it improved marked by adj. overall gearing (after factoring in guaranteed debt) of 1.04x as on March 31, 2022 as compared with 1.74x as on March 31, 2021. Total adjusted debt declined from Rs.163.14 crore as on March 31, 2021 to Rs.114.80 crore as on March 31, 2022 majorly due to decline in the working capital borrowing and increase in creditors, thereby total outside liability to tangible net worth (TOL/TNW) remained at 2.40x

as on March 31, 2022 compared to 2.61x as on March 31, 2021. Corporate guarantee extended to the bank facilities of NBC (amounting Rs.25 crore) was removed during July 2021 which further reduced its adjusted debt level. Debt profile of SIL as on March 31, 2022 includes working capital borrowings of Rs.27.28 crore, term loan of Rs.38.33 crore, fixed deposit of Rs.30.12 crore and inter-corporate deposit of Rs.13.89 crore, loans and advance from related party of Rs.3.30 crore along with guaranteed debt of Rs.1.88 crore. Fixed deposits are mainly from directors, friends, employees and public which had exhibited an increasing trend in past five years with majority of them getting rolled over on maturity.

Susceptibility of profitability to volatile raw material price and foreign exchange fluctuation risk

Maize seed is the key raw material which accounted for 60-65% of total cost of sales and Maize being an agriculture commodity; the operations of players like SIL are vulnerable to inherent risks associated with volatility in agri-based inputs prices arising from vagaries of the monsoon, acreage under cultivation, crop yield level and global demand-supply mismatches. Furthermore, the prices of agricultural commodities are also controlled by the Government through setting of minimum support price (MSP). The government has raised the MSP of Maize to Rs.1962 per quintal for 2022-23 from Rs.1870 per quintal in 2021-22.

SIL derived around 90% of its sales from domestic market and balance from the export market during FY22. It generally hedges 50-60% of its receivables by forward contracts whereas balance portion is exposed to adverse movement in foreign exchange.

Presence in a competitive agro processing industry with competition from both organized as well as unorganized players

Maize processing industry is highly competitive with presence of few large players and large number of unorganized players. SIL faces competition from large players in value added segment while for starch it faces competition from unorganized segment limiting the pricing flexibility.

Liquidity - Adequate

SIL's has adequate liquidity marked by modest cash accruals against its debt repayment obligation of around Rs.16 crore (including FD maturity of around Rs.8.22 crore) during FY23. On a consolidated basis, average monthly fund based working capital utilization remained low at 38% for past months ended May 31, 2022. Cash flow from operation increased from Rs.27.40 crore during FY21 to Rs.74.41 crore during FY22 due to increase in the creditors level as on March 31, 2022 however, the same is expected to normalized going forward. SIL had cash and cash equivalents of Rs.2.33 crore as on March 31, 2022.

However, SIL had below unity current ratio due to utilization of short-term funds for long term purpose in past. Capex related to process improvement was funded from internal accruals and partly from working capital over the years which is now being replaced by long term funds (term loan as well as fixed deposit) which is expected to improve its liquidity ratio going forward.

Detailed description of the key rating drivers of SSL

Key Rating Weakness

Financial risk profile marked by small scale of operation, thin profitability and continued losses at PAT level

TOI of SSL grew steadily from last four years from Rs.11.20 crore during FY19 to Rs.28.78 crore during FY22. However, it continued to operate on small scale. Its profitability remained thin and moderated by 147 on y-o-y basis to 2.78% during FY22. With its small scale of operation and elevated cost level, SSL continued to incur losses at PAT level.

SSL has leveraged capital structure on the back of its low capital base and comparatively high debt as compared with its scale of operation. Capital structure remained leveraged marked by overall gearing of 3.06x as on March 31, 2022 as compared with 2.21x as on March 31, 2021.

Seasonality associated with business having dependency on the vagaries of monsoon with presence in the competitive seed industry

Seed industry akin to other agro commodities, is seasonal and dependent on the monsoon. Also, with crops remaining vulnerable to diseases, pest or weed infestations, SSL's earnings are susceptible to crop failure and disease outbreaks. Further, its product portfolio is concentrated with major reliance on Maize seeds followed by Paddy and Wheat.

SSL has limited track record in the highly fragmented Indian seed industry which restricts the SSL's operational and financial flexibility to an extent. It also witnesses high competition from few large private sector and large number of mid-sized entities operating in the sector.

Key Rating Strengths

Experienced promoters and synergy derived from SSL being part of Ahmedabad based Sayaji group and wide distribution network

SSL was incorporated as a subsidiary of SIL (96.88% stake as on March 31, 2022). Presently, Mr Priyam Mehta (Chairman and Managing Director of SIL) and Mr Varun Mehta (Executive Director SIL) handles the overall operation of the firm. in the capacity of Executive Director. Promoters are resourceful and had supported the operation of the firm thorough infusion of unsecured loan/capital as and when required.

SSL has two R&D laboratories (at Kalol and Kathwada in Ahmedabd, Gujarat). At present, it is working on seeds development for 12 crops. Major crops on which SSL is working are Maize, Cotton, Paddy, Vegetables and Soya bean. Currently it has presence in 9 states with over 900 distributors which caters to various retailers.

Liquidity: Stretched

SSL has stretched liquidity cash losses as well as negative cash flow from operation during FY22. Average utilization of its fund based working capital facility remained moderate at around 73% for past 12 months ended May 31, 2022. Furthermore, it has long operation cycle due to high inventory as well as collection period. Operating cycle remained long at 273 days during FY22 as compared to 264 days during FY21.

Analytical Approach:

For Credit Enhancement (CE) Rating: Assessment of guarantor, SIL.

CARE has analyzed SSL's credit profile by considering credit enhancement in the form of unconditional and irrevocable corporate guarantee (CG) extended by SIL to the lenders of SSL for its bank facilities.

For the analysis of SIL, CARE has taken a consolidated approach along with factoring in the CG extended by SIL to its group entities. Details of subsidiaries consolidated are shown in **Annexure-3**. SIL has extended its unconditional and irrevocable CG for the bank facilities of SSL (a subsidiary), and ASL (a 50:50 JV).

For Un-supported/standalone rating: Standalone financials of SSL along with its operational and financial linkages with its parent i.e. SIL.

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Credit Enhanced Debt](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

About the company - SIL

Incorporated in 1941, SIL (CIN: L99999GJ1941PLC000471) is one of the oldest maize processing companies in India. SIL is engaged in the manufacturing of maize starch and its downstream value-added products which find application in diverse industries. Its manufacturing facility is located at Kathwada, Ahmedabad having installed capacity of 850 TPD of maize processing as on April 30, 2022. SIL has a subsidiary SSL, a 50:50 JV; ASL and an associate concern; NBC which had reported TOI of Rs.28.78 crore, Rs.29.26 crore and Rs.104 crore respectively in FY22. Further, Sayaji group has presence in real estate business through Sayaji Samruddhi LLP.

Brief Financials- Consolidated (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (Abridged)
Total operating income	639.55	559.89	794.98
PBILDT	20.64	52.36	50.33
PAT	-2.35	16.51	18.85
Overall gearing (times)	1.83	1.50	1.02
Adjusted overall gearing (times)	2.03	1.74	1.04
Interest coverage (times)	1.24	3.86	4.46

A: Audited

About the firm-SSL

Established in 2015, SSL (LLPIN: AAF-1886) is part of Ahmedabad based Sayaji group. SSL is engaged in the production and marketing of various seeds such as maize, castor, pearl millet, paddy, wheat, cotton, groundnut, soyabean, okra, bitter gourd and bottle gourd. It had setup the R&D farms at Kalol and Kathwada near Ahmedabad, Gujarat and seeds production farms at Gujarat, Andhra Pradesh and Telengana. Currently, SSL sells its seeds to farmers via its distribution network of around 915 distributors spread across Bihar, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Uttar Pradesh, Jharkhand, Haryana and Chhatisgarh with major products being maize seeds, Wheat Seeds and Soyabean seeds.

Brief Financials- (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (Prov.)
Total operating income	18.44	22.02	28.78
PBILDT	1.04	0.94	0.80
PAT	-0.09	-0.34	-0.66
Overall gearing (times)	1.98	2.21	3.06
Interest coverage (times)	1.16	0.98	0.64

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-4

Complexity level of various instruments rated for this company: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit	-	-	-	-	8.00	CARE BBB+ (CE); Stable / CARE A3+ (CE)
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	-	5.00	CARE BBB+ (CE); Stable / CARE A3+ (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	-	0.00	CARE BB / CARE A4
Fund-based - LT-Working Capital Limits	-	-	-	-	5.00	CARE BB; Stable

Annexure-2: Rating history for the 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/ ST-Cash Credit	LT/ST*	8.00	CARE BBB+ (CE); Stable / CARE A3+ (CE)	-	1)CARE BBB+ (CE); Stable / CARE A3+ (CE) (30-Nov-21) 2)CARE BBB+ (CE); Stable / CARE A3+ (CE) (04-Aug-21)	1)CARE BBB- (CE); Stable / CARE A3 (CE) (08-Oct-20) 2)CARE BBB- (CE); Stable / CARE A3 (CE) (16-Jul-20)	1)CARE BBB (CE); Negative / CARE A3 (CE) (02-Dec-19) 2)CARE BBB (CE); Stable / CARE A3 (CE) (06-Sep-19)
2	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST*	5.00	CARE BBB+ (CE); Stable / CARE A3+ (CE)	-	1)CARE BBB+ (CE); Stable / CARE A3+ (CE) (30-Nov-21) 2)CARE BBB+ (CE); Stable / CARE A3+ (CE) (04-Aug-21)	1)CARE BBB- (CE); Stable / CARE A3 (CE) (08-Oct-20) 2)CARE BBB- (CE); Stable / CARE A3 (CE) (16-Jul-20)	1)CARE BBB (CE); Negative / CARE A3 (CE) (02-Dec-19) 2)CARE BBB (CE); Stable / CARE A3 (CE) (06-Sep-19)
3	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	0.00	CARE BB / CARE A4	-	1)CARE BB / CARE A4 (30-Nov-21) 2)CARE BB / CARE A4	1)CARE BB / CARE A4 (08-Oct-20) 2)CARE BB / CARE A4	1)CARE BB / CARE A4 (02-Dec-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
4	Fund-based - LT-Working Capital Limits	LT	5.00	CARE BB; Stable	-	(04-Aug-21) 1)CARE BB; Stable (30-Nov-21)	(16-Jul-20) -	-

*Long term/Short term.

Annexure 3: List of subsidiaries and joint ventures of SIL getting consolidated

Sr. No.	Name of the Entity	% holding by SIL as on March 31, 2022
1.	Sayaji Seeds LLP	96.88%
2.	Alland and Sayaji LLP	50%

Annexure-4: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-5: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Fund-based - LT/ ST-Cash Credit	Simple
3	Fund-based - LT/ ST-Working Capital Demand loan	Simple
4	Un Supported Rating-Un Supported Rating (LT/ST)	Simple

Annexure-6: 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 has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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