Gujarat Ambuja Exports Limited

July 19, 2024

Facilities/ Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE AA-; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to bank facilities of Gujarat Ambuja Exports Limited (GAEL) derives strength from its long operational track record, promoters' vast experience in agro processing businesses, its leading market position in the domestic maize processing industry, diversified revenue profile supported by a wide product portfolio, strategic location of its plants, and reputed clientele across end-user industries. The rating also factors GAEL's strong financial risk profile marked by low leverage, comfortable debt coverage indicators, and strong liquidity.

However, GAEL's rating is tempered by vulnerability of its operating (profit before interest, lease rentals, depreciation, and taxation [PBILDT]) margins to volatility in the agro-commodity prices and foreign exchange rate. The rating is also constrained by weak performance of some of its operating segments in past two years ended FY24 (refers to period April 01 to March 31). CARE Ratings Limited (CARE Ratings) also takes cognisance of the inherent risk associated with GAEL's large-sized capex plans. However, the company plans to fund entire capex through internal accruals, which mitigates the risk to large extent.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Significantly growing scale of operations with sustained improvement in PBILDT margin of over 10% backed by increasing share of value-added products.

Negative factors

- Declining PBILDT margin to below 7% on a sustained basis.
- Large-size debt-funded capex or elongating working capital cycle leading to overall gearing of over 0.5x and net debt/ PBILDT of over 1x.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects CARE Ratings' expectation that GAEL shall maintain its strong operational performance backed by an established track record and leading market position in the domestic maize processing industry. Stable outlook also reflects sustenance of its healthy cash accruals, debt coverage indicators, and capital structure.

Detailed description of key rating drivers:

Key strengths

Long operational track record and leading market position in the domestic maize processing industry

Manish Gupta, MD, looks after GAEL's overall management and strategic activities. The company also benefits from the guidance of eminent personalities on its Board as they have rich experience across diverse industries.

GAEL is an established agro processor with a track record of more than 30 years, and it has long-standing relationship with suppliers, farmers, customers, and other stake holders. The company primarily operates under four divisions: maize processing, other agro processing (mainly soya), cotton yarn, and renewable energy. The maize processing division is GAEL's core due to its higher and relatively stable margin profile and better growth potential on the back of increasing demand for starch and its derivatives. GAEL's maize processing division's revenue grew by compounded annual growth rate (CAGR) of 20% in the last three years ended FY24. The share of maize processing in GAEL's total revenue increased to 70% in FY24 compared to 42% in FY21. GAEL possesses the highest maize processing capacity of 4,000 metric tonne per day (MTPD, TPD) in India.

Diversified revenue stream and strategic location of plants

The company's product portfolio includes corn starch and further downstream value-added derivatives such as liquid glucose, dextrose monohydrate, dextrose anhydrous and sorbitol, refined edible oils (mainly soybean oil), de-oiled cake (DOC), vanaspati ghee, and cotton yarn. GAEL's revenue is also geographically diversified with exports contributing around 35% of total operating income (TOI) in FY24 (FY23: 31%). GAEL mainly exports to south-east Asian countries, including Korea and Bangladesh.

GAEL has 12 manufacturing facilities at nine different locations spread across six states, Gujarat (two), Madhya Pradesh (two), Maharashtra (two), Uttarakhand (one), Karnataka (one) and West Bengal (one). These strategic locations offer advantages to

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

GAEL in terms of easy availability of raw materials and savings in logistic costs considering proximity of its plants to regions which are major cultivators of its agro inputs.

Diversified clientele across end-user industries

Stringent end-customer approvals for the manufacturing set-up and products act as entry barriers for players in maize processing segment. GAEL has been supplying its products to reputed customers in the end-user industries such as food and food products, fast-moving consumer goods (FMCG), animal feed, paper, textile, pharmaceuticals, and chemical among others. The diversification across industries and clients mitigates the risk associated with cyclicality in respective industries. The customer profile is also diversified marked by top 10 customers of GAEL's maize division accounted for 27% of its total income of maize division in FY24.

Healthy scale of operations and profitability

GAEL's TOI grew by CAGR of 6.5% in the last four years ended FY24 and stood at ₹4,927 crore for FY24 driven by higher sales volumes in its maize processing division. CARE Ratings expects GAEL's revenue to grow at 8% to 9% per annum in near to medium term. Capacity addition in its maize processing division is expected to drive the growth in sales volume and TOI. GAEL's PBILDT margin declined to around 9% in FY24 from the exceptional level of PBILDT at around 15% in FY22. CARE Ratings expects GAEL's PBILDT margin to remain in the range of 9% to 10% in near to medium term. Higher contribution from the value-added products and higher share of maize processing segment's revenue in TOI is expected to aid PBILDT margin.

Low leverage and comfortable debt coverage indicators

GAEL has a strong capital structure marked by an overall gearing ratio which stood at 0.07x as on March 31, 2024, due to minimum reliance on external borrowing and a healthy capital base of ₹2,768 crore as on even date. CARE Ratings expects GAEL's overall gearing ratio to remain low as the entire capex planned by GAEL is expected to be funded through internal accruals.
GAEL has very comfortable debt coverage indicators marked by interest coverage of 24x and total debt/ PBILDT of 0.45x. CARE Ratings expects debt coverage indicators to remain comfortable in the medium term due to stable profitability margin and continued low reliance on external debt.

Stable industry outlook

Maize is the major raw material used to produce starches and its other value-added derivatives. The major users of starches and other and derivatives are food, textile, paper and packaging, paints, aluminium, and pharmaceutical sectors. All these industries have a stable outlook with demand growing steadily. The industry has witnessed capacity addition in the past two to three years by major players and some of the new capacity would become operational in the next one to two years. Additional capacities are likely to be absorbed in the medium term considering the steady increase in the demand of corn starch and its derivatives from the end-user industries.
The demand for edible oil is expected to increase in India, with the growing population. Income and population growth are the important indicators that contribute to the rising consumption. The edible oil industry is highly competitive with presence of both large national players and multiple regional players. Being part of a highly fragmented industry, GAEL faced intense pricing competition and could not fully pass on the price increases to its customers in case of sharp movement in the raw material price in short duration, thereby constraining its profitability.

Liquidity: Strong

GAEL's liquidity remains strong marked by healthy cash-flow from operations, availability of large un-utilised fund-based working capital limits, and healthy unencumbered liquid investments. GAEL reported cashflow from operations of around ₹213 crore in FY24. Out of total sanctioned secured, unsecured, fund-based and non-fund-based working capital limits of Rs.1,049 crore, the utilisation remained low at around 31% for the trailing 12 months ended May 2024. The company's term debt repayment liability is negligible. GAEL is in the process of executing large-sized capex for expanding capacities of its maize processing division. The projected cash accruals are expected to be adequate to meet the planned capex for FY25-FY27. The liquidity is also supported by unencumbered liquid investment of approximately ₹820 crore as on March 31, 2024.

Key weaknesses

Inherent risk associated with large-sized expansion project

GAEL is expanding its maize processing capacity by 2,000 TPD in the next two years (enhancing its maize processing capacity by 50%), which will help it maintaining its leadership position in the segment. Apart from this, GAEL is also expanding capacities of value-added products and adding ethanol manufacturing capacity at three different locations, which are expected to be commissioned in the next two years. The envisaged capex is around ₹900 crore in next two-three years, which is expected to be funded entirely from the internal accruals. Any cost overrun or delay in commissioning or ramp-up of additional capacities might weaken its return indicators.

Vulnerability of operating margin to volatility in agro-based raw material prices and foreign exchange rate fluctuations

Maize seed, soya seed, and raw cotton are the key raw materials used by GAEL for its three divisions. GAEL's operations are vulnerable to the inherent risks associated with agri-based inputs prices. The raw material prices are linked to agricultural output, which in turn, is exposed to factors such as vagaries of the monsoon, acreage, yield level, and global demand-supply mismatches. Apart from this, the agri commodities prices are also controlled by the Government through setting of minimum support price (MSP). MSP of all types of agri-commodities consumed by GAEL have shown a continuous upward trend in the past.

GAEL's leadership position in maize processing industry, geographically diverse manufacturing locations, presence of clauses to pass on the volatility in input cost to its customers mainly in starch derivative segment (though with some lag) and its financial flexibility helps the company to mitigate the agro commodity-related risk to an extent.

Continued weak performance of its agro processing and cotton spinning division

Profitability margins of agro processing (mainly soya dibble oil and DOC) and cotton spinning division have inherently remained thin and low and volatile in past two years ended FY24. These divisions account for around 22% of the total capital employed. However, their combined PBILDT was 6% of total PBILDT in FY23, while they reported operating losses in FY24. The performance of the cotton division is expected to remain weak, and the company is not planning investment for this division. The performance of agro processing division is expected to remain volatile per the industry scenario, though it is expected to remain weaker than maize processing division.

Environment, social, and governance (ESG) risks

Risk factors	Compliance and action by the company
Environmental	▪ GAEL has consistently made active efforts towards optimising our energy consumption and efficiently managing production waste. ▪ GAEL has continuously striven to use renewable energy resources, power-saving equipment, and constantly focusing on plantation drives. ▪ GAEL has continued to increase the use of biogas engines, biomass-based boilers, and other energy-saving equipment. ▪ At GAEL, all the waste generated is either put to alternate use or sold to authorised agencies. GAEL generates solid waste such as ETP sludge, spent earth, soya danthal, mitti from soya seed, and coal ash from boiler. It sells the ETP sludge generated from ETP to authorised agencies. GAEL's recyclable solid waste is also used in agricultural land as fertilizers. GAEL sells spent earth and coal ash for bricks manufacturing. It also uses soya danthal as boiler fuel to reduce carbon emission.
Social	▪ GAEL tries to source raw materials directly from the farmers with a viewpoint of empowering them. ▪ The premises and offices are accessible to differently abled employees and workers, although there is no such worker at present under GAEL's employment. The company is committed to being an equal opportunity employer and ensures an inclusive workplace for all. An Equal Opportunity Policy is being formulated.
Governance	▪ GAEL has an adequate governance structure. Four out of seven directors on the board are independent directors including two women directors on the board.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

Incorporated in August 1991, GAEL was promoted by the late Vijay Kumar Gupta and his family. GAEL is an Ahmedabad-based diversified agro processor, mainly engaged in four segments: (i) maize processing through corn wet milling for manufacturing unmodified starch and other downstream value-added derivatives; (ii) agro processing for solvent extraction and oil refining (mainly soyabean); (iii) cotton yarn manufacturing; and (iv) renewable power generation. GAEL has manufacturing facilities at nine different locations spread across six states, Gujarat (two), Madhya Pradesh (two), Maharashtra (two), Uttarakhand (one), Karnataka (one), and West Bengal (one). As on March 31, 2024, GAEL had maize processing capacity of 4,000 MTPD, seed crushing capacity of 4,500 MTPD, refining capacity of 1,200 MTPD, and cotton spinning capacity of 65,000 spindles.

Brief Financials (₹ crore) – Standalone	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	4,909	4,927
PBILDT	476	443
PAT	330	346
Overall gearing (times)	0.09	0.07
Interest coverage (times)	35.90	24.11

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-EPC/PSC		-	-	-	100.00	CARE AA-; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-EPC/PSC	LT*	100.00	CARE AA-; Stable				

*LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT- EPC/ PSC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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