# Sayaji Industries Limited

August 23, 2021

**Ratings**

| Facilities | Amount (Rs. crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long-term Bank Facilities | 43.01 | **CARE BBB+; Stable (Triple B Plus; Outlook: Stable)** | **Reaffirmed** |
| Long-term/Short-term Bank Facilities | 86.50 | **CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)** | **Reaffirmed** |
| Short-term Bank Facilities | 20.50 | **CARE A3+ (A Three Plus)** | **Reaffirmed** |
| **Total Bank Facilities** | **150.01 (Rs. One Hundred Fifty Crore and One Lakhs Only)** | | |
| Fixed Deposit | 35.00 (Enhanced from 30.00) | **CARE BBB+ (FD); Stable [Triple B Plus (Fixed Deposit); Outlook: Stable]** | **Reaffirmed** |
| **Total Medium-Term Instruments** | **35.00 (Rupees Thirty-Five Crore only)** | | |

*Details of instruments/ facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities/instruments of Sayaji Industries Limited (SIL) continues to takes into account significant improvement in its profitability, capital structure and debt coverage indicators during FY21 despite incurring losses during Q1FY21. The revision in ratings also factor in increasing portion of value-added products and cost rationalization measures implemented by SIL which is expected to provide sustainability to moderate profit margins going forward.

The rating continues to derive strength from its experienced promoters along with established track record of eight decades of the company in maize processing industry, moderate scale of operation, strong product profile with presence in value-added starch derivatives and established sales network with reputed and diversified clientele.

The ratings, however, continue to remain constrained on account moderately leveraged capital structure, and 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**

**Positive Factors**

- 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**

- Decline in profitability with PBILDT margin below 7% on sustained basis
- Increase in total debt leading adj. overall gearing above 2x or total debt to PBILDT exceeding 5x on sustained basis

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Significant improvement in the profitability and debt coverage indicators with moderate scale of operations***

SIL has moderate scale of operation marked by TOI of Rs.561.49 crore on consolidated basis during FY21 which declined from Rs.640.16 crore in FY20 mainly on account of moderation the avg. realization on the back of decline in the raw material prices along with lower sales in Q1FY21 amidst Covid 19 disruption. Sales volume declined by only 4% during FY21 on y-o-y basis. SIL's standalone income (TOI of Rs.539.23 crore in FY21) continued to be the major contributor to the company's consolidated TOI (Rs.561.49 crore in FY21), with around 96% share in FY21 (97% in FY20).

SIL's profitability improved significantly marked by PBILDT margin of 9.61% during FY21 as compared to 3.32% during FY20 and was higher than 4.5%-5.5% of PBILDT margin in past on back of increased proportion of value-added products, benefit of cost rationalization measures implemented and favourable maize prices wherein moderation in the avg. raw material prices

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

(maize prices) was higher than the moderation in its finished goods prices. Going forward, with better product mix and continued benefit of various cost control measures, PBILDT margin are expected to be moderate level at around 8%-8.5%.
Improvement at the PBILDT level along with decline in the interest and finance cost due to lower working capital utilization, PAT (profit after tax) and Gross cash accruals (GCA) had also improved significantly.
Improvement in profitability led to the significant improvement in the overall debt coverage indicators of SIL during FY21 as marked by total debt to GCA (TDGCA) of 4.61x and PBILDT Int. Coverage of 3.98x respectively during FY21 as compared 25.34x and 1.28x respectively during FY20.

***Strong product profile with increasing portion of value-added product and diversified clientele***
There are multiple players in the corn starch manufacturing industry, however; few players have presence in all major starch derivatives, one of which is SIL. Out of 710 TPD of its maize grinding capacity, it is able to recover ~65.50% of starch slurry which is utilized for producing maize starch powder (low margin product) and various derivatives including liquid glucose (low margin product) along with higher margin products such as sorbitol, ADH and DMH. 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 FY21, overall capacity utilization largely remined stable across starch and process food segment whereas it declined for anhydrous dextrose (ADH) product.
Proportion of value-added product (DMH, ADH and Sorbitol) had increased in last three years from 32% of net sales in FY19 to 37% of net sales in FY21 while liquid glucose and maize starch had declined from 36% to 29%. This had benefitted SIL in terms of better profitability.
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 other. Sales to its top 10 customers forms around 30% of its total operating income (TOI) in last two years reflecting diversified clientele.
SIL is undertaking capex of around Rs.22 crore for spray dryer manufacturing unit which will be used to manufacture dry food powder adding to its product mix. The same will be funded from term loan of Rs.16.50 crore and balance from the internal accruals. The plant is expected to be operational in Q3FY22. These products are manufactured at smaller scale in ASL.

***Experienced promoters and established track record of eight decades of the company 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 seven decades. SIL is promoted by Mehta family and is presently managed by second and third generation viz. i.e. 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), ADH, sorbitol, etc. During FY19, it had undertaken debt funded capital expenditure to increase capacity of its value-added products i.e. sweetener plant (Sorbitol, DMH, ADH) within its existing maize grinding capacity of 710 TPD (tonnes per day) which was completed in November, 2018. 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, fat based powder and non dairy creamer. SSL is engaged in the production and marketing of various seeds such as maize, castor, paddy and Wheat among others.

**Key Rating Weaknesses**
***Improvement in capital structure albeit remained at moderate level***
Though capital structure of SIL though remained moderately leveraged, it improved marked by adj. overall gearing (after factoring in guaranteed debt) of 1.74x as on March 31, 2021 as compared to 2.03x as on March 31, 2020. Further, corporate guarantee (CG) extended to the bank facilities of NBC (amounting Rs.25 crore) was removed during July 2021 which would further strengthen its solvency position.
Debt profile of SIL as on March 31, 2021 includes working capital borrowings of Rs.68.01 crore, term loan of Rs.29.95 crore, fixed deposit of Rs.31.60 crore and inter-corporate deposit of Rs.8.39 crore, loans and advance from related party of Rs.2.32

crore along with guaranteed debt of Rs.22.87 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 and Maize being an agriculture-based input; 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.1870/ quintal for 2021-22 from Rs.1850/quintal in 2020-21. The sharp increase in prices in FY20 had impacted the performance of all players including SIL in FY20 but same dropped in Q2FY21 onwards benefitting players including SIL. In medium terms same is expected to increase but remain at moderate level.

SIL derived 10% of its sales from export market and 90% of its sales from domestic market during FY20. 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. SIL is expected to earn GCA of Rs.30-35 crore in next two years as against debt repayment obligation of Rs.16-18 crore including FD as per maturity schedule. SIL had taken steps to reduce its working capital utilization. Avg. monthly fund based working capital utilization remained moderate at 60% for past months ended May 31, 2021. Cash flow from operation remained healthy at Rs.42.48 crore during FY21 as compared to Rs.46.52 crore during FY20. SIL had lean operating cycle of 14 days in FY21 (FY20: 18 days). It generally keeps maize inventory for 20-30 days and procures raw material from major maize producing states i.e. Maharashtra, Karnataka and Bihar.

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.

***Industry Outlook***

The Indian starch and derivatives market scenario has witnessed significant changes in the last few years. Starch processing is one of the top five food processing industries in India with a significant history of high employment, food product growth and food infrastructure developments. Maize is the major raw material used to produce starches and its other value added derivatives. Of the total maize produced in India, only 10-12% is being consumed by the starch industry. Poultry and animal feed industry remains the top consumer of the maize. Hence, for the CWMs (corn wet mills), obtaining the right quality of maize as well as ensuring a seamless supply of maize are the most important for the good quality and continuous production of starches and sweeteners. The major users of starches its other and derivatives are Food, Textile, Paper and Packaging, Paints, Aluminium and Pharmaceutical sectors. The growing consumption of convenience foods with lifestyle changes and increasing disposable income, thrust of the government on food processing sector as well as growing e-commerce remains the main demand drivers of the sector. Further, starch and its derivatives are also an important input for the industries like Paper and Packaging, Paints, Aluminium and Pharmaceutical sectors. All these industries are expected to have stable demand in near to medium term.

**Analytical Approach: Consolidated along with CG extended by SIL**

SIL has extended its unconditional and irrevocable CG for the bank facilities of SSL (a subsidiary), and ASL (a 50:50 JV). Earlier, SIL has also extended CG to NBC (an associate) which had been removed in July 2021 by its lenders. Details of subsidiaries consolidated are shown in **Annexure-3**.

**Applicable Criteria:**

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation

Rating Methodology: Manufacturing Companies
Criteria for Credit Enhanced Debt
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-financial Sector Entities

**About the company**

Incorporated in 1941, SIL (CIN: L99999GJ1941PLC000471) is one of the oldest maize processing companies in India which was promoted by Ahmedabad based Mehta family and is presently managed by second and third generation of the family i.e. Mr. Priyam Mehta along with his sons Mr. Varun Mehta and Mr. Vishal Mehta. 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 710 TPD of maize processing as on March 31, 2021.

SIL has a subsidiary SSL, a 50:50 JV; ASL and an associate concern; NBC which had reported TOI of Rs.22.02 crore, Rs.24.51 crore and Rs.81.11 crore respectively in FY21. Further, Sayaji group has presence in real estate business through Sayaji Samruddhi LLP.

| Brief Financials- Consolidated (Rs. Crore) | FY20 (A) | FY21 (A) |
|---|---|---|
| Total operating income | 640.16 | 561.49 |
| PBILDT | 21.25 | 53.96 |
| PAT | -2.35 | 16.51 |
| Adj. overall gearing (incl. CG extended) (times) | 2.03 | 1.74 |
| Interest coverage (times) | 1.28 | 3.98 |

*A: Audited*

As per its published results (consolidated) for Q1FY22, SIL earned PAT of Rs.5.20 crore on TOI of Rs.173.99 crore as against PAT of Rs.(5.91) crore on a TOI of Rs.86.62 crore in Q1FY21.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

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

**Complexity level of various instruments rated for this company**: Please refer Annexure-5.

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | - | - | March 2028 | 43.01 | CARE BBB+; Stable |
| LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | - | - | - | 83.00 | CARE BBB+; Stable / CARE A3+ |
| Non-fund-based - ST-Working Capital Limits | - | - | - | 5.50 | CARE A3+ |
| Non-fund-based - LT/ ST-Bank Guarantees | - | - | - | 3.50 | CARE BBB+; Stable / CARE A3+ |
| Fund-based - ST-Bills discounting/ Bills purchasing | - | - | - | 15.00 | CARE A3+ |
| Fixed Deposit | - | - | 12-36 months | 35.00 | CARE BBB+ (FD); Stable |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2021-2022 | Date(s) & Rating(s) assigned in 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 |
| 1. | Fund-based - LT-Term Loan | LT* | 43.01 | CARE BBB+; Stable | 1)CARE BBB+; Stable (04-Aug-21) | 1)CARE BBB-; Stable (07-Oct-20) 2)CARE BBB-; Stable (08-Jul-20) | 1)CARE BBB; Negative (25-Nov-19) 2)CARE BBB; Stable (04-Sep-19) | 1)CARE BBB; Stable (11-Mar-19) 2)CARE BBB; Stable (24-Oct-18) |
| 2. | LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC | LT/ST* | 83.00 | CARE BBB+; Stable / CARE A3+ | 1)CARE BBB+; Stable / CARE A3+ (04-Aug-21) | 1)CARE BBB-; Stable / CARE A3 (07-Oct-20) 2)CARE BBB-; Stable / CARE A3 (08-Jul-20) | 1)CARE BBB; Negative / CARE A3 (25-Nov-19) 2)CARE BBB; Stable / CARE A3 (04-Sep-19) | 1)CARE BBB; Stable / CARE A3 (11-Mar-19) 2)CARE BBB; Stable / CARE A3 (24-Oct-18) |
| 3. | Non-fund-based - ST-Working Capital Limits | ST* | 5.50 | CARE A3+ | 1)CARE A3+ (04-Aug-21) | 1)CARE A3 (07-Oct-20) 2)CARE A3 (08-Jul-20) | 1)CARE A3 (25-Nov-19) 2)CARE A3 (04-Sep-19) | 1)CARE A3 (11-Mar-19) 2)CARE A3 (24-Oct-18) |
| 4. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST* | 3.50 | CARE BBB+; Stable / CARE A3+ | 1)CARE BBB+; Stable / CARE A3+ (04-Aug-21) | 1)CARE BBB-; Stable / CARE A3 (07-Oct-20) 2)CARE BBB-; Stable / CARE A3 (08-Jul-20) | 1)CARE BBB; Negative / CARE A3 (25-Nov-19) 2)CARE BBB; Stable / CARE A3 (04-Sep-19) | 1)CARE BBB; Stable / CARE A3 (11-Mar-19) 2)CARE BBB; Stable / CARE A3 (24-Oct-18) |
| 5. | Fund-based - ST-Bills discounting/ Bills purchasing | ST* | 15.00 | CARE A3+ | 1)CARE A3+ (04-Aug-21) | 1)CARE A3 (07-Oct-20) 2)CARE A3 (08-Jul-20) | 1)CARE A3 (25-Nov-19) 2)CARE A3 (04-Sep-19) | 1)CARE A3 (11-Mar-19) |
| 6. | Fixed Deposit | LT* | 35.00 | CARE BBB+ (FD); Stable | 1)CARE BBB+ (FD); Stable (04-Aug-21) | 1)CARE BBB- (FD); Stable (07-Oct-20) 2)CARE BBB- (FD); Stable (08-Jul-20) | 1)CARE BBB (FD); Negative (25-Nov-19) 2)CARE BBB (FD); Stable (04-Sep-19) | - |

**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@ |
|---|---|---|
| 1. | Alland and Sayaji LLP | 50% |
| 2. | Sayaji Seeds LLP | 96.31% |

*@ as on March 31, 2021; Sayaji Corn Products Limited ceased to be subsidiary of SIL and has applied to the Registrar of the Companies, Gujarat for removing its name from the register of the Companies which is under process of strike off as at the end of financial year i.e. March 31, 2020 and March 31, 2021. However, it doesn't have any operation.*

**Annexure 4: Detailed explanation of covenants of the rated instrument//facilities**

| Bank Facilities | Detailed explanation |
|---|---|
| **A. Financial covenants** | |
| | 1. Total debt to T. Net-worth not exceed 2.75x |
| | 2. Total outside liability to Adjusted. T. Net-worth exceeding 4.50x |
| | 3. DSCR not below 1.10x |
| | 4. PBIDT margin falling below 3.75% |
| | 5. External Debt to PBIDT not exceeding 4.00x from FY21 |
| **B. Non financial covenants** | - |

**Annexure 5 Complexity level of various instruments rated for this Company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fixed Deposit | Simple |
| 2. | Fund-based - LT-Term Loan | Simple |
| 3. | Fund-based - ST-Bills discounting/ Bills purchasing | Simple |
| 4. | Non-fund-based - LT/ ST-Bank Guarantees | Simple |
| 5. | Non-fund-based - ST-Working Capital Limits | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

## Contact Us

**Media Contact**
Name: Mradul Mishra
Contact no.: - +91-22-6837 4424
Email ID: mradul.mishra@careratings.com

**Analyst Contact**
Group Head Name: Akhil Goyal
Group Head Contact no : - +91-79-40265621
Group Head Email ID : akhil.goyal@careratings.com

**Business Development Contact**
Name: Deepak Prajapati
Contact no. - +91-79-40265602
Email ID: deepak.prajapati@careratings.com

**About CARE Ratings:**
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.



****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**