

Sayaji Seeds LLP

November 30, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities @	5.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities #	13.00 (Enhanced from 9.00)	CARE BBB+ (CE); Stable / CARE A3+ (CE) [Triple B Plus (Credit Enhancement); Outlook: Stable/ A Three Plus (Credit Enhancement)]	Reaffirmed
Total Bank Facilities	18.00 (Rs. Eighteen Crore Only)		

Details of instruments/facilities in Annexure-1

@ Standalone limit which is not backed by corporate guarantee

backed by unconditional and irrevocable corporate guarantee extended by Sayaji Industries Limited (SIL; rated CARE BBB+; Stable / CARE A3+ & CARE BBB+(FD); Stable)

Un Supported Rating²	CARE BB / CARE A4 (Double B / A Four) [Reaffirmed]
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Note: Unsupported ratings do not factor in the explicit credit enhancement.

Detailed description of the key rating drivers for 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+ & CARE BBB+(FD); Stable).

Detailed description of the key rating drivers of SIL

The ratings assigned to the bank facilities/instruments of Sayaji Industries Limited (SIL) continues to take into account significant improvement in its profitability, capital structure and debt coverage indicators during FY21 despite incurring losses during Q1FY21. The 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 for the guarantor; SIL

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

Key Rating Drivers of SSL i.e. Unsupported/Standalone Rating

The unsupported/standalone ratings of SSL, based on its standalone credit assessment, are continued to remain constrained by its small scale of operation, thin profitability, continued losses at profit after tax (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. The ratings also factors in the distribution network spread across Gujarat, Rajasthan, Madhya Pradesh, Uttar Pradesh, Jharkhand and Chhattisgarh.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

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

Rating Sensitivities for the SSL

Positive Factors

- 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

Negative Factors

- Continued incurring losses
- Deterioration in Guarantor's profile

Detailed description of the key rating drivers of the guarantor; SIL

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 (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 remained 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.

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

SSL has short track record of operations with FY17 being its first full year of operations. It operates on a small scale of operation marked by TOI of Rs.22.02 crore during FY21 as compared with Rs.11.20 crore during FY20. Its profitability remained thin with PBILDT margin of 4-6%. SSL reported net loss during FY21 on the back of decline in the PBILDT at absolute level and moderate depreciation as well as interest and finance cost. SSL also reported minor cash losses during FY21.

SSL has leveraged capital structure on the back of its low capital base and comparatively high debt as compared to its scale of operation. Overall gearing remained leveraged, though improved from 3.10x as on March 31, 2019 to 2.21x as on March 31, 2021 despite losses due to infusion of funds by parent.

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 (92.20% stake as on March 31, 2019). Presently, Mr Varun Mehta (Chairman and Managing Director of SIL) handles the overall operation of the company 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 8 states with approximately 600 distributors which caters to various retailers.

Liquidity: Stretched

SSL has stretched liquidity with its fund based working capital utilization remained high at ~98%. It reported cash losses during FY21. Cash flow from operation too remained negative at Rs.2.83 crore and Rs.0.28 crore for FY20 and FY21 respectively. Furthermore, it has long operation cycle due to high inventory as well as collection period. Operating cycle remained long at 264 days during FY21 as compared to 238 days during FY20. Promoters infused need based funds in the company to support the liquidity position.

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). Earlier, SIL has also extended CG to NBC (an associate) which had been withdrawn in July 2021 as per revised sanction letter of bank and the same has also been confirmed by the banker vide its interaction dated July 26, 2021, thereby same is excluded.

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

Applicable Criteria

[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 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)	H1FY22 (Published)
Total operating income	640.16	561.49	353.15
PBILDT	21.25	53.96	24.51
PAT	-2.35	16.51	8.03
Adj. overall gearing (incl. CG extended) (times)	2.03	1.74	1.40
Interest coverage (times)	1.28	3.98	4.08

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 600 distributors spread across Gujarat, Rajasthan, Madhya Pradesh, Uttar Pradesh, Jharkhand and Chhatisgarh with major products being maize seeds, Wheat Seeds and Soyabean seeds.

Brief Financials-- (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	18.44	22.02	14.14
PBILDT	1.04	0.94	0.72
PAT	-0.09	-0.34	N.A.
Overall gearing (times)	1.98	2.21	N.A.
Interest coverage (times)	1.16	0.98	N.A.

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for 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: Annexure- 5

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. 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 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/ ST-Cash Credit	LT/ST*	8.00	CARE BBB+ (CE); Stable / CARE A3+ (CE)	1)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)	1)CARE BBB (SO); Stable / CARE A3 (SO) (27-Dec-18)
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) (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)	1)CARE BBB (SO); Stable / CARE A3 (SO) (27-Dec-18)
3	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST*	0.00	CARE BB / CARE A4	1)CARE BB / CARE A4 (04-Aug-21)	1)CARE BB / CARE A4 (08-Oct-20) 2)CARE BB / CARE A4 (16-Jul-20)	1)CARE BB / CARE A4 (02-Dec-19)	-
4	Fund-based - LT-Working Capital Limits	LT	5.00	CARE BB; Stable	-	-	-	-

* 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	96.34%

@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: 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 instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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