Gujarat Ambuja Exports Limited

July 30, 2019

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	3.62 (reduced from 7.24)	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**
Total Facilities	**3.62 (Rupees Three crore and Sixty Two lakh only)**		
Commercial Paper #	100.00	**CARE A1+ [A One Plus]**	**Reaffirmed**
Total Instruments	**100.00 (Rupees One hundred Crore only)**		

Details of facilities in Annexure-1

 # carved out of sanctioned fund based working capital limits of the company

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities and instruments of Gujarat Ambuja Exports Limited (GAEL) continue to derive strength from its long operational track record, vast experience of the promoters in various agro processing businesses, its leading market position in terms of manufacturing capacity in the domestic maize processing industry, diversified revenue profile which is supported by a wide product portfolio, strategic location of its plants and reputed clientele across various end-user industries. The ratings also take cognizance of completion of phase-II (starch derivative facility) of its maize processing division at Chalisgaon, Maharashtra. The ratings further continue to derive strength from sustained growth in the scale of operations of GAEL during FY19 (refers to the period April 1 to March 31) along with its comfortable leverage, strong debt-coverage indicators and healthy liquidity.

The above rating strengths are, however, tempered by the vulnerability of its operating (PBILDT) margins to volatility in the agro-commodity prices and forex fluctuation; and its working capital intensive operations. The ratings are also tempered by the inherent project implementation risk associated with its large-sized ongoing capex for establishing a maize processing plant at Malda, West Bengal; albeit plans to largely fund it through internal accruals mitigate the risk to an extent.

The ability of GAEL to significantly improve its operating profitability on a sustained basis by effectively managing the inherent volatility in agro-based raw material prices and forex fluctuation so as to improve its return on capital employed (ROCE), while maintaining its comfortable leverage and debt coverage indicators and healthy liquidity in the backdrop of its working capital intensive operations would be the key rating sensitivities. Furthermore, its ability to successfully implement and stabilize its on-going large-sized capex in maize processing division within envisaged cost and time parameters and generate envisaged returns thereof would also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Leading market position in terms of manufacturing capacity in the domestic maize processing industry

GAEL is an established agro processor which primarily operates under three divisions i.e. maize processing, agro processing (mainly soya) and cotton yarn. The maize processing division has become GAEL's core and focus area due to its higher and relatively stable margin profile and better growth potential on the back of increasing demand for starch and its derivatives. Total operating income (TOI) of maize processing segment of GAEL has steadily increased from Rs.992 crore during FY15 to Rs.1,871 crore during FY19 on account of increase in sales volume of starch and its derivatives. GAEL had successfully set up phase-I of maize processing at Chalisgaon in Maharashtra in March, 2018 with installed capacity of around 3,50,000 metric tonne per annum (MTPA) and thereby became the largest player in the domestic maize processing industry with total installed capacity of 10,50,000 MTPA. GAEL has also completed capex of phase- II at its Chalisgaon plant in June 2019 whereby company will be able to manufacture other starch derivative products.

Diversified revenue stream and wide product portfolio catering to diverse industries

GAEL has significantly diversified its revenue base in different segments over the past few years. The company's product portfolio includes corn starch and further downstream value added derivatives like liquid glucose, dextrin, dextrose monohydrate, dextrose anhydrous and sorbitol, refined edible oils (mainly soybean oil), de-oiled cake (DOC), vanaspati ghee, wheat flour and other products, and cotton yarn. This broad product basket caters to diverse industries like food and food products, FMCG, animal feed, paper, textile, pharmaceuticals and chemical among others. Though agro-

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

processing division contributes highest share in terms of revenue, the maize-division leads in terms of PBILDT contribution with around 80% contribution in PBILDT during FY19.

Reputed clientele across various end-user industries
Stringent end-customer approvals for the manufacturing set-up and products act as entry barriers for other players in maize processing segment. GAEL has been supplying its products to reputed companies like Heinz India Pvt. Ltd., ITC Ltd, Patanjali Ayurveda Ltd (CARE A+; Stable / CARE A1), Asian Paints Ltd, Dabur India Ltd, Welspun India Ltd (rated CARE AA; Stable / CARE A1+), Hindustan Unilever Limited, etc. Most of its clientele enjoy leading position in their respective industry segment resulting in low business risk for GAEL. The diversification across various industries and clients mitigates the risk associated with cyclicality in respective industries.

Established operations in agro processing business
GAEL has been operating in the agro processing industry for nearly 25 years and it has long standing relationship with suppliers, farmers, customers and other stake holders. During FY19 (refers to the period April 1 to March 31), the share of agro-processing division in GAEL's TOI declined marginally and stood at 47% as compared to 52% during FY18 mainly because of improved performance of maize division, otherwise the TOI of agro processing division improved marginally to Rs.1901 crore in FY19 compared to Rs.1760 crore in FY18.

Geographically diversified and strategic location of plants
GAEL has total 12 manufacturing locations which are geographically diversified in the states of Gujarat (5), Madhya Pradesh (3), Maharashtra (2), Uttarakhand (1) and Karnataka (1). These strategic locations offer advantages to GAEL in terms of easy availability of raw material and savings in logistic cost on account of proximity of its plants to regions which are major cultivators of its agro-inputs.

Wide experience of the promoters in agro based industry
Mr. Manish Gupta, MD, looks after the overall management and strategic activities of GAEL. The company also benefits from the guidance of eminent personalities on its Board as they have very rich experience across diverse industries.

Growth in TOI due to increasing share of maize processing division during FY19 after witnessing stable performance during FY18; albeit marginal moderation in overall profitability during FY19
TOI of the company witnessed y-o-y increase of 19% during FY19 largely on account of growth in sales from maize processing division on the back of benefit of added capacity. During FY19, the revenue from maize processing and agro processing divisions grew by 39% and 8% respectively on y-o-y basis. PBILDT margin of GAEL moderated marginally by 18 bps and stood at 9.44% during FY19 largely on account of decline in profitability in agro processing division whereby PBILDT margin declined from 7.88% in FY18 to 4.20% in FY19 mainly on the back of decline in the prices of de-oiled cake (DOC). However, the PBILDT margins from agro processing segment have historically remained in the range of 2-5% with FY18 exhibiting an exceptionally better performance. Also, profitability of maize processing division moderated during Q4FY19 on account of sharp rise in price of maize.

Comfortable leverage and strong debt coverage indicators
Overall gearing of GAEL improved to 0.18 times as on March 31, 2019 from 0.63 times as on March 31, 2018 on account of lower utilization of its working capital limits and absence of major term debt. PBILDT interest coverage improved and remained healthy at 20.19 times during FY19 and total debt / PBILDT stood at 0.57 times during FY19.

Liquidity analysis
Although overall operations of GAEL exhibit a moderate degree of working capital intensity largely arising from high inventory holding, the liquidity position of GAEL is comfortable on the back of steady generation of cash accruals and absence of major long term debt repayment obligations as the company undertakes most of its capex through internal accruals. It had free cash & bank balance/liquid investment of Rs.66.91 crore as on March 31, 2019. Further, average utilization of its fund-based working capital limits remained comfortable at 49% during trailing 12-months ended June 30, 2019. Operating cycle of GAEL improved from 90 days during FY18 to 67 days during FY19 largely on account of reduction in inventory days. On the back of sharp rise in prices of maize, GAEL had cautiously reduced its inventory holding which is reflected from inventory level of Rs.501.64 crore as on March 31, 2019 as compared to Rs.723.73 crore as on March 31, 2018. With decline in inventory holding & healthy generation of cash accruals during FY19, its working capital borrowing level has also declined significantly to Rs.209.24 crore as on March 31, 2019 from Rs.632.39 crore as on March 31, 2018.

Key Rating Weaknesses
Vulnerability of operating margin to volatility in agro-based raw material prices and foreign exchange fluctuation
Soya seed, maize seed and raw cotton are the key raw materials used by GAEL for its three divisions; which accounted for more than 92% of total raw material consumed during FY19. Being an agriculture-based input; the operations of GAEL are

vulnerable to the inherent risks associated with agri-based inputs prices. Further, the prices of raw materials 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 prices of agri commodities are also controlled by the Government through setting of minimum support price (MSP). Furthermore, PBILDT margins of its agro processing division have remained inherently thin and fluctuated between 2.66% to 7.88% during FY15 to FY19. Also, its cotton yarn division, although having small share in its overall TOI, has not largely contributed to its profitability during past few years. Furthermore, GAEL is exposed to fluctuation in foreign currency exchange rates. However, GAEL generally enters into forward contracts which partially mitigate the forex risk. Also, the geographically diverse manufacturing locations, presence of clauses to pass on the volatility in input cost to its customers mainly in starch derivative segment (albeit with some lag) and its leadership position in maize processing industry helps to mitigate the agro commodity related risk to an extent.

Significant amount of total capital is employed in agro processing & cotton yarn business whereby profitability is thin & fluctuating

The capital employed in its cotton yarn and agro processing divisions together stood at 38% of its total capital employed as on March 31, 2019 which is significant. Capacity utilization of the agro processing division remained low at ~25% during FY19 due to seasonal nature of the business and there are lots of other risks involved in this business. Profitability of both these divisions is inherently thin and wide fluctuations have been observed in their profitability during the past few years. PBILDT margin of agro processing division declined from 7.88% in FY18 to 4.20% in FY19 whereas PBILDT margin of cotton yarn division declined from 1.33% in FY18 to 0.94% in FY19. The performance of these two divisions has been largely pulling down the ROCE of GAEL to moderate levels.

Inherent project implementation risk associated with its large-sized capex

GAEL has completed capex for Phase II of its project for establishing starch derivative facility in Chalisgaon, Maharashtra in June 2019 through internal accruals; albeit its ramp-up is awaited. Also, GAEL has started setting up maize processing plant with installed capacity of 750 TPD at Malda, West Bengal at a cost of around Rs.219 crore which is proposed to be funded entirely out of internal accruals. The commercial operations date (COD) of the project is expected to be March 2021. Hence, GAEL is exposed to inherent project implementation and stabilization risk associated with this project. Further, free cash flow generation is expected to be restricted due to both capex and working capital intensity. However, experience of GAEL in executing and stabilizing similar projects in its profitable maize processing segment mitigate the project risk to an extent.

Analytical approach*:* Standalone

Applicable criteria:

Criteria on assigning ‘outlook’ to Credit Ratings
CARE’s Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the company

Incorporated in August 1991, GAEL was promoted by late Mr. Vijay Kumar Gupta and his family members. GAEL, an Ahmedabad-based diversified agro processor, is mainly engaged in three segments: i) maize processing through corn wet milling for manufacturing of unmodified starch and other downstream value added derivatives ii) agro processing for solvent extraction & oil refining (mainly soybean) and iii) cotton yarn manufacturing.
As on March 31, 2019, GAEL had an installed capacity of 10.50 lakh metric tonne per annum (MTPA) of maize processing, 13.20 lakh MTPA of solvent extraction, 3.90 lakh MTPA of edible oil refining and 0.15 lakh MTPA of cotton yarn. GAEL has become the largest domestic player in maize crushing after completion of its project at Chalisgaon, Maharashtra.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Operating Income	3,371	4,027
PBILDT	324	380
PAT	180	198
Overall Gearing (Times)	0.63	0.18
Interest Coverage (Times)	18.07	20.19

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure - 1: Details of Instruments/Facilities

Name of the Instrument/ Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	January 2020	3.62	CARE A+; Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	7 – 364 days	100.00	CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (20-Mar-19)	1)CARE A1+ (07-Mar-18)	1)CARE A1+ (24-Jan-17)
2.	Fund-based - LT-Term Loan	LT	3.62	CARE A+; Stable	-	1)CARE A+; Stable (20-Mar-19)	1)CARE A+; Stable (07-Mar-18)	1)CARE A+; Stable (24-Jan-17)

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.*

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