Gujarat Ambuja Exports Limited

March 20, 2019

Ratings

Facilities/ Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities #	7.24	**CARE A+; Stable [Single A Plus; Outlook: Stable]**	**Reaffirmed**
Total Facilities	**7.24 (Rupees Seven Crore and Twenty Four 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 the maize processing industry, diversified revenue profile which is supported by a wide product portfolio, strategic location of its plants and catering to reputed clientele across various end-user industries. The ratings also take cognizance of stabilization of its green field manufacturing unit in maize processing division at Chalisgaon, Maharashtra. The ratings further continue to derive strength from sustained growth in the scale of operations of GAEL and improvement in its profitability during 9MFY19 (refers to the period April 1 to December 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 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 starch derivative facilities in Maharashtra and the green field capex to set up 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 ongoing 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 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. Total operating income (TOI) of maize processing segment of GAEL has steadily increased from Rs.992 crore during FY15 to Rs.1350 crore during FY18 and further to Rs.1340 crore during 9MFY19 on account of increase in sales volume of starch and its derivatives. GAEL has also successfully set up and stabilised its greenfield manufacturing unit for maize processing at Chalisgaon in Maharashtra with installed capacity of around 3,50,000 metric tonne per annum (MTPA) and has thereby become the largest player in the domestic maize processing industry with installed capacity of 10,50,000 MTPA. Currently, capex at Chalisgaon plant is largely completed whereby company will be able to manufacture other starch derivative products which are expected to improve its profitability.

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-processing division contributes highest share in

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

terms of revenue, the maize-division leads in terms of PBILDT contribution with around 57% contribution in PBILDT during FY18.

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 AA-; Negative / CARE A1+), Asian Paints Ltd, Dabur India Ltd, Welspun India Ltd (rated CARE AA; Stable / CARE A1+), Adani Wilmar Ltd (rated CARE A; Stable / CARE A1), etc. Most of its clientele enjoy leading position in their respective industry segment resulting in lower 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; albeit thin and fluctuating profitability margins: 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 FY18 (refers to the period April 1 to March 31), the share of agro-processing division in GAEL's TOI remained stable at 52% as compared to 55% during FY17. However, the capacity utilization of this division has remained low at ~33% due to seasonal nature of the business. Further, the PBILDT margins in this division are low and exhibits inherent volatility.

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). This strategic location offers 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 board of GAEL comprises of eminent personalities having very rich experience across diverse industries who also take active part in the overall strategic decisions making of the company.

Growth in TOI and improvement in the profitability during 9MFY19 due to increasing share of maize processing division after witnessing stable performance during FY18
TOI of the company remained stable during FY18. However, TOI grew by 11% during 9MFY19 as compared to 9MFY18 on account of benefit of added capacity of maize processing division. PBILDT margins though improved by 123 bps during FY18 on account of benefit of low cost inventory in agro-processing division, it remained moderate at 9.62%. It was on account of decline in performance of maize processing division due to impact of GST and fall in the sales realization of by-products (around 30% of the total maize division production) which are primarily used in cattle feed, due to good monsoon. However, from Q3FY19, PBILDT margin for maize-processing division has shown upward trend which has also resulted in improvement in the PBILDT margins of GAEL from 8.27% during 9MFY18 to 11.46% during 9MFY19.

Comfortable leverage and strong debt coverage indicators: Overall gearing of GAEL improved to 0.63 times as on March 31, 2018 from 0.75 times as on March 31, 2017 on account of lower utilization of its working capital limits and absence of major term debt. PBILDT interest coverage improved and remained healthy at 18.07 times during FY18 and 18.57 times during 9MFY19 on account of low debt levels. Total debt / PBILDT stood at 2.00 times during FY18.

<u>Key Rating Weaknesses</u>
Vulnerability of operating margin to volatility in agro-based raw material prices and foreign exchange fluctuation; and moderate ROCE: Soya seed, maize seed and raw cotton are the key raw materials used by GAEL for its three divisions; which accounted for more than 95% of total raw material consumed during FY18. 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 which has also been reflected from declining trend in PBILDT margins of its maize processing division during the three-years ended FY18; before picking-up to 17.24% during 9MFY19. 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 has remained inherently thin and fluctuated between 0.33% to 8.30% during FY15 to FY18; and it stood at 7.11% during 9MFY19. Also, its cotton yarn division, although having small share in its overall TOI, has been mostly incurring losses during past few years. Agro processing and cotton yarn divisions of GAEL which constitute around 40-44% of its capital employed has been largely pulling down its ROCE to moderate levels of around 15-16%. Also, GAEL is exposed to fluctuation in foreign currency exchange rates. However, GAEL generally enters into forward contracts which partially mitigate the forex risk. Further, the geographically diverse manufacturing locations, presence of clauses to pass on the volatility to its customers mainly in starch derivative segment (albeit with some lag) and its leadership position in maize processing industry mitigate the agro commodity related risk to an extent.

Inherent project implementation risk associated with its large-sized capex; albeit it is being undertaken in the relatively higher profit earning maize processing segment and is being envisaged to be funded through internal accruals
GAEL has started capex for Phase II of project for establishing starch derivate facility in Chalisgaon, Maharashtra. Total cost of Phase II is Rs.110 crore out of which GAEL has incurred Rs.71 crore till January, 2018. GAEL is expecting Commercial operation of the facility by Q1FY20. Entire capex was funded through internal accruals only. GAEL has started setting up green field maize processing plant at Malda, West Bengal with installed capacity of 3,50,000 MTPA at cost of around Rs.300 crore being funded through internal accruals over two years. 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.

Liquidity analysis: Working capital intensive operations; albeit comfortable liquidity: Although overall operations of GAEL exhibit a moderate degree of working capital intensity largely arising from high inventory holding, GAEL has adequate liquidity supported by steady generation of cash accruals and absence of major long term debt repayment obligations as the company undertakes most of its capex largely through internal accruals. It had cash & bank balance/liquid investment of Rs.48.06 crore and 139.26 crore as on March 31, 2018 and September 30, 2018. Further, average fund-based working capital utilization also remained at 66% during trailing 12-months ended January 2019. Operating cycle of GAEL was elongated at 90 days during FY18 from 72 days during FY17 on account of higher stocking of inventory as on March 31, 2018 to cater to the growing demand. However, the same has been largely liquidated during 9MFY19 and it has also resulted in corresponding reduction in working capital borrowing of the company as on December 31, 2018.

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 December 31, 2018, 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 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)	FY17 (A)	FY18 (A)
Total Operating Income	3,343	3,371
PBILDT	280	324
PAT	159	180
Overall Gearing (Times)	0.75	0.63
Interest Coverage (Times)	12.30	18.07

A: Audited
Based on unaudited published results for 9MFY19, GAEL reported total operating income (TOI) of Rs.2,767 crore (9MFY18: Rs.2,503 crore) with profit after tax (PAT) of Rs.167 crore (9MFY18: Rs.101 crore).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

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

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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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	-	-	January 2020	7.24	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+	-	1)CARE A1+ (07-Mar-18)	1)CARE A1+ (24-Jan-17)	1)CARE A1+ (07-Mar-16)
2.	Fund-based - LT-Term Loan	LT	7.24	CARE A+; Stable	-	1)CARE A+; Stable (07-Mar-18)	1)CARE A+; Stable (24-Jan-17)	1)CARE A+ (07-Mar-16)

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