

Sayaji Industries Limited

October 24, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	41.00	CARE BBB; Stable [Triple B; Outlook: Stable]	Assigned
Long-term/Short-term Bank Facilities	103.50	CARE BBB; Stable/CARE A3 [Triple B; Outlook: Stable/ A Three]	Assigned
Short-term Bank Facilities	5.50	CARE A3 [A Three]	Assigned
Total Facilities	150.00 (Rupees One Hundred and Fifty crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale& Key Rating Drivers

The ratings assigned to the bank facilities of the Sayaji Industries Limited (SIL) derive strength from the experienced promoters, established track record of more than seven decades of the company in maize processing industry, strong product profile with presence in value added starch derivatives and established sales network with reputed and diversified clientele. The ratings further derive strength from growing scale of operation with lean operating cycle.

The ratings, however, are constrained on account of its financial risk profile marked by moderate profitability, leveraged capital structure, moderate debt coverage indicators and modest liquidity position. The ratings also factors in its project risk associated with ongoing debt funded capex, its presence in the competitive agro processing industry with volatile raw material price and foreign exchange fluctuation risk.

The ability of the company to increase its scale of operations along with improvement in profitability and capital structure is the key rating sensitivity. Completion of the project in envisaged time and cost parameter and realization of the benefit thereon is also the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and established track record of more than seven 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 company 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 with vast experience in the industry. Further, team is assisted by tier II staff which has been long associated with the company.

Over the years it has gradually developed facilities to manufacture modified starches and other value added derivatives like liquid glucose, dextrose, monohydrate, anhydrous dextrose (ADH), sorbitol etc. with installed capacity of 710 ton per day as on March 31, 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 internal power requirement.

Strong product profile: There are multiple players in corn starch manufacturing industry however; very few players are present in all major starch derivatives, one of which is SIL. SIL's product portfolio includes maize starch and its various derivatives like liquid glucose, dextrose monohydrate, anhydrous dextrose (ADH), sorbitol and other by-products. It has maize grinding capacity of 710 TPD. Out of 710 TPD, SIL is able to recover 465 TPD of starch slurry which is utilized for producing maize starch powder (low margin product) and various derivatives including liquid glucose (low margin product), dextrose syrup, sorbitol, ADH and DMH having better margins. These products find application in diverse industries viz. textile, paper, pharmaceuticals, food and confectionery, cosmetic, paint as well as for poultry and animal feeds.

Established sales network with reputed and diversified clientele: Over the years, SIL has established strong marketing and procurement network. It has presence in domestic as well as export market. It exports to various countries like Oman, Yemen, Sudan, Srilanka and Saudi Arabia with exports forming 18% of its TOI. In domestic market it has office Kolkata, Chennai and Delhi in India with 25 sales agents. SIL has reputed and diversified customer base with customer includes reputed companies like Colgate Palmolive India Limited, Hindustan Unilever Limited, FDC Limited, Zydus

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

Wellness Limited, Arvind Limited etc. During FY18, sales to top 10 customers comprised around 25% of net sales reflecting its diversified customer base.

Growing scale of operation with lean operating cycle: Total operating income (TOI) of SIL grew from Rs.492.13 crore in FY16 to Rs.582.15 crore in FY18 mainly on account expansion of customer base and process improvements leading to higher capacity utilization. Domestic sales grew at CAGR of 5.91% from Rs.425.75 crore in FY16 to Rs.477.58 crore in FY18. However, export sales grew marginally from Rs.102.28 crore in FY16 to Rs.106.60 crore in FY18 due to geo-political unrest in the countries of export and changing product mix of the company towards value added products.

SIL has lean operating cycle of 24 days in FY18 as compared to 22 days in FY17. It generally keeps maize inventory for one month and procures raw material from major maize producing states i.e. Karnataka, Andhra Pradesh, Tamilnadu, Bihar and Uttar Pradesh. Collection period also remained comfortable at 23 days in FY18.

Key Rating Weaknesses

Financial risk profile marked by moderate profitability, leveraged capital structure and moderate debt coverage indicators: SIL has moderate profitability albeit PBILDT margin has shown improvement in last three years from 4.65% in FY16 to 4.92% in FY18 mainly on account of operational efficiency which resulted in cost saving through reduction of wastages. This has also resulted in improvement in PAT margin which however remained thin due to high interest and depreciation owing to capex and increased working capital borrowings. Overall profitability remains moderate and lower compared to industry peers owing to lower proportion of value added products and high employee costs. Also, SIL has its manufacturing facility at Ahmedabad, Gujarat which is located far from maize-cultivating regions. However, locational disadvantage of being distant from the maize-cultivating regions partly offset by proximity to various end customers (textile and pharmaceuticals) in Western India.

Capital structure of SIL remained leveraged marked by overall gearing of 2.48 times as on March 31, 2018. Its debt coverage indicators remained moderate marked by total debt to gross cash accruals (TDGCA) of 8.55 times and PBILDT interest coverage of 2.43 times in FY18. Total debt stood at Rs.139.24 crore as on March 31, 2018 which includes working capital borrowings of Rs.68.77 crore, term loan of Rs.15.81 crore and incremental capex done for process improvement. SIL has extended the corporate guarantee of Rs.25.57 crore as on March 31, 2018 for the bank facilities of its subsidiaries namely Sayaji Seeds LLP and Sayaji Ingritech LLP and its group company N.B. Commercial Enterprises Private Limited, which mainly includes working capital limits.

Modest liquidity position: SIL has modest liquidity position with positive cash flow from operation in last five years but below unity current and quick ratio which had declined in last two years due to usage of short term funds for long term purpose. Capex related to process improvement was funded from internal accruals and partly from working capital. However, same is expected to improve with receipt of funds from stake sale in Sayaji Sethness Limited to its JV partner Sethness Products Company, USA for the consideration of USD 3.20 million (Rs.23 crore) in July 2018 against book value of Rs.1.20 Crore as on March 31, 2018. Average fund based working capital utilization remained moderate at 86% for past twelve months ended August 2018.

Project risk associated with on-going debt funded capital expenditure: SIL is currently undertaking debt funded capital expenditure to increase capacity of its value added products i.e. sweetener plant (Sorbitol, Dextrose Monohydrate, ADH) from its existing capacity of 145 TPD to 210 TPD within its existing maize grinding capacity of 710 TPD. Total project cost is estimated at Rs.45 crore which will be funded through term loan of Rs.35 crore and internal accruals of Rs.10 crore. As on September 30, 2018, SIL had incurred total cost of Rs.21.73 crore for the said project funded from internal accruals which would be reimbursed with disbursement of term loan. Project is expected to complete by the end of Q3FY19.

Presence of the company in competitive agro processing industry with susceptibility to volatile raw material price and foreign exchange fluctuation risk: Maize processing industry is highly competitive with presence of few large payers and large no. of unorganized players. Maize seed is the key raw material which accounted for 65-70% of total cost and Maize being the agriculture-based input; the operations of player like SIL are vulnerable to inherent risks associated with agri-based inputs prices such as vagaries of the monsoon, acreage, crop yield level and global demand-supply mismatches. Furthermore, the prices of agriculture commodities are also controlled by the Government through setting of MSP. SIL derived 18.31% of its income from export sales in FY18 as compared to 17% in FY17. It generally hedged 50-60% of its receivables by forward contracts and for balance portion is exposed to adverse movement in foreign exchange.

Analytical approach: Standalone

Applicable Criteria:

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

Financial Ratios - Non-Financial Sector

About Company

Incorporated in 1941, SIL (CIN: L99999GJ1941PLC000471) is one of the oldest maize processing company and is engaged in the manufacturing of maize starch and its downstream value added products viz. liquid glucose, dextrose monohydrate, anhydrous dextrose, sorbitol and other byproducts. Its manufacturing facility is located at Kathwada, Ahmedabad having installed capacity of 710 TPD of maize processing as on March 31, 2018.

SIL is the flagship company of Sayaji Group and has three subsidiaries Sayaji Ingriotech LLP (75.99% held by SIL), Sayaji Seeds LLP (90% held by SIL) and Sayaji Corn Products Limited (99.98% held by SIL) as on March 31, 2018. Further, Sayaji group has presence in real estate and plastic barrels manufacturing through Sayaji Samruddhi LLP and N.B. Commercial Enterprises Limited respectively.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total operating income	536.07	582.15
PBILDT	25.61	28.66
PAT	3.93	5.43
Overall gearing (times)	2.40	2.48
PBILDT Interest coverage (times)	2.24	2.43

A: Audited; Prov.: Provisional

Based on unaudited published results for Q1FY19, SIL has reported TOI of Rs143.74 crore (Q1FY18: Rs147.78) with PAT of Rs.3.27 crore (Q1FY18: 0.73 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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	October 2025	41.00	CARE BBB; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	99.00	CARE BBB; Stable / CARE A3
Non-fund-based - ST-Letter of credit	-	-	-	5.50	CARE A3
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	4.50	CARE BBB; Stable / CARE A3

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.	Fund-based - LT-Term Loan	LT	41.00	CARE BBB; Stable	-	-	-	-
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	99.00	CARE BBB; Stable / CARE A3	-	-	-	-
3.	Non-fund-based - ST-Letter of credit	ST	5.50	CARE A3	-	-	-	-
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	4.50	CARE BBB; Stable / CARE A3	-	-	-	-

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