Sayaji Industries Ltd.

July 08, 2020

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	36.23	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	**Revised from CARE BBB; Negative (Triple B; Outlook: Negative)**
Long-term/Short-term Bank Facilities	103.50	**CARE BBB-; Stable/ CARE A3 (Triple B Minus; Outlook: Stable/A Three)**	**Revised from CARE BBB; Negative/CARE A3 (Triple B; Outlook: Negative/ A Three)**
Short-term Bank Facilities	35.50	**CARE A3 (A Three)**	**Reaffirmed**
Total Facilities	**175.23 (Rs. One Hundred and Seventy Five crore and Twenty Three lakh only)**		
Medium Term Instrument-Fixed Deposit Programme	**30.00 (Rs. Thirty crore only)**	**CARE BBB- (FD); Stable (Triple B Minus (Fixed Deposit); Outlook: Stable)**	**Revised from CARE BBB (FD); Negative (Triple B; (Fixed Deposit); Outlook: Negative)**

Details of instruments/ facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities/instruments of Sayaji Industries Limited (SIL) is on account of y-o-y decline in its profitability during FY20 (FY refers to the period from April 1 to March 31) which was lower than envisaged levels; with the company incurring net loss during the year primarily due to higher maize prices. The revision in ratings also factor its inability to monetize some of its non-core assets within the envisaged timeline so as to support the operations of the company as well as expectation of subdued performance in Q1FY21 on account of disruption in its operations due to nationwide lockdown imposed in India to control the spread of Covid-19 pandemic.

The ratings continue to derive strength from its experienced promoters along with 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 SIL's moderate scale of operation and lean operating cycle.

The ratings, however, continue to remain constrained on account of its leveraged capital structure, moderate debt coverage indicators and stretched liquidity. The ratings are further constrained due to its presence in the competitive agro processing industry along with susceptibility of its profitability to volatile raw material price and foreign exchange fluctuation risk.

Rating Sensitivities

Positive Factors

- Increase in scale of operations and improvement in profitability with PBILDT margin beyond 7% on sustained basis along with improvement in its debt coverage indicators
- Reduction in its overall gearing below 1.25 times

Negative Factors

- Continued pressure on its profitability resulting in PBILDT margin below 3% on sustained basis
- Increase in adjusted overall gearing (after factoring in guaranteed debt) beyond 3 times on sustained basis

Detailed description of the key rating drivers

Key Ratings 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 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

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

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, anhydrous dextrose (ADH), sorbitol, etc. During FY19, SIL had undertaken debt funded capital expenditure to increase capacity of its value added products i.e. sweetener plant (Sorbitol, Dextrose Monohydrate (DMH), Anhydrous Dextrose (ADH)) within its existing maize grinding capacity of 710 TPD (tonnes per day) which was completed in November, 2018. Total project cost was Rs.45 crore which was funded through term loan of Rs.35 crore and internal accruals of Rs.10 crore. Post expansion, total dextrose syrup manufacturing capacity increased from 145 TPD to 210 TPD by reducing liquid glucose manufacturing capacity from 90 TPD to 30 TPD and native starch capacity from 180 TPD to 175 TPD. 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 N.B. Commercial Enterprises Limited (NBC), Alland and Sayaji LLP (ASL; formerly known as Sayaji Ingritech LLP) and Sayaji Seeds LLP (SSL) whereby SIL has extended its unconditional and irrevocable corporate guarantees for the debt availed by these entities. 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, pearl millet, paddy, wheat, cotton, groundnut, soyabean, okra, bitter gourd and bottle gourd to farmers.

Strong product profile with reputed and diversified clientele
There are multiple players in the corn starch manufacturing industry however; very few players have presence 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 – forming 31% of TOI in FY20) and various derivatives including liquid glucose (low margin product - forming 8% of TOI in FY20) along with higher margin products such as sorbitol (forming 20% of TOI in FY20), Dextrose Anhydrous (ADH - forming 9% of TOI in FY20) and Dextrose Monohydrate (DMH - forming 6% of TOI in FY20). By-products include Hydrol, Maize Gluten, Maize Oil, Oil Cake, Corn Steep Liquor, etc. which contributed 22% of TOI in FY20. These products find application in diverse industries viz. textile, paper, pharmaceutical, food and confectionery, cosmetic, paint as well as for poultry and animal feed.

Over the years, SIL has established strong marketing and procurement network. It has presence in domestic as well as export markets. It exports to various countries like Oman, Yemen, Sudan, Sri Lanka and Saudi Arabia. In domestic market it has offices in Kolkata, Chennai and Delhi. SIL has reputed and diversified clientele including reputed companies like Colgate Palmolive India Limited, Hindustan Unilever Limited, FDC Limited, Zydus Wellness Limited, Arvind Limited, etc. Sales to its top 10 customers have comprised around 25% of its annual net sales.

Moderate scale of operation with lean operating cycle
On a consolidated level, SIL reported TOI of Rs.640.16 crore in FY20 as compared to Rs.648.76 crore in FY19 and thereby continued to operate at a moderate scale. SIL's standalone income (TOI of Rs.621.71 crore in FY20) continued to be the major contributor to the company's consolidated TOI (Rs.640.16 crore in FY20), with around 97% share (96% in FY19).
SIL had lean operating cycle of 17 days in FY20 (FY19: 27 days). It generally keeps maize inventory for 20-30 days and procures raw material from major maize producing states i.e. Karnataka, Andhra Pradesh, Tamilnadu, Bihar and Uttar Pradesh.

Key Rating Weaknesses
Net loss incurred during FY20 coupled with inability to monetize its non-core assets to the extent envisaged resulting in lower than envisaged cash accruals during the year; along with expectation of subdued performance in Q1FY21
SIL reported significant decline in its profitability during FY20 marked by PBILDT margin of 3.32% as compared to 5.30% in FY19 owing to elevated raw material prices (maize prices) which the company was not able to fully pass on to its customers. The decline at PBILDT level along with moderate increase in interest and finance cost and depreciation charge resulted in net loss of Rs.2.35 crore in FY20. The decline in profitability was higher than the previously envisaged levels due to dual impact of high raw material prices along-with adverse impact of lockdown imposed due to Covid 19 pandemic affecting its sales and resulting in inventory loss during Q4FY20. SIL reported PBILDT margin of 3.97% on a TOI of Rs.158.13 crore in Q4FY20 as against 5.27% on a TOI of Rs.177.19 crore in Q4FY19. The company management's previously articulated plans to infuse significant funds in the company through sale of certain non-core real estate assets owned by SIL in FY20 largely did not materialize (except for sale of Rs.1.66 crore during Q1FY20) which combined with lower operating profitability resulted in

lower cash accruals and moderation in its debt coverage indicators. Additionally, SIL's operations were closed on March 22, 2020 and the same were started in a staggered manner from May 04, 2020 while taking adequate precautions for combating the spread of Covid 19, which is expected to result in subdued performance during Q1FY21 as well. With procurement prices of maize coming down to ~Rs.14 per kg in May 2020 and the company taking some cost control measures including salary reduction, SIL's performance may gradually improve from Q2FY21 onwards if demand picks-up with gradual opening of the economy post lockdown.

Leveraged capital structure and moderation in debt coverage indicators
SIL had a leveraged capital structure marked by adjusted overall gearing (after factoring in guaranteed debt) of 2.07 times as on March 31, 2020. Debt profile of SIL as on March 31, 2020 includes working capital borrowings of Rs.73.78 crore, term loan of Rs.33.99 crore, fixed deposit of Rs.26.90 crore and inter-corporate deposit of Rs.3.38 crore, loans and advance from related party of Rs.2.32 crore along with guaranteed debt of Rs.19.74 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. The moderation in its profitability coupled with sustained debt levels resulted in deterioration in SIL's debt coverage indicators during FY20 as reflected from its total debt to gross cash accruals (TDGCA) of 25.96x as on March 31, 2020 as against 4.24x as on March 31, 2019 and PBILDT interest coverage of 1.28x in FY20 as against 2.81 times in FY19.

Presence in a 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 number of unorganized players. 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). SIL derived 18% of its income from export sales in FY19. It generally hedges 50-60% of its receivables by forward contracts whereas balance portion is exposed to adverse movement in foreign exchange.

Liquidity - Stretched
SIL's liquidity is stretched marked by modest cash accruals against its debt repayment obligation and its below unity current ratio. During FY20 there was sharp increase in its trade payables which was used to fund the increase in its inventory and receivables as well as for meeting the capex incurred during the year. SIL, however, derives some cushion from its average fund based working capital utilization of 84% for past twelve months ended May 2020. It also had meagre cash and bank balance of Rs.0.58 crore as on March 31, 2020. Despite the challenging business environment, the company has not availed the moratorium on its interest and principal repayment obligations, the option for which was available as a Covid-relief measure under the package announced by the Reserve Bank of India. To support the company's liquidity, the SIL's management has articulated its plan for infusion funds by monetizing non-core assets (real estate properties) of the company and/or fund infusion by the promoters. Timely infusion of such funds in the company will be crucial from the liquidity perspective going forward.

Analytical Approach: Consolidated along with corporate guarantee extended
Consolidated financials of SIL (which includes financials of SIL (Standalone), SSL and ASL) along with factoring in debt backed by its corporate guarantee. SIL has extended its unconditional and irrevocable corporate guarantee (CG) for the bank facilities of SSL (a subsidiary), NBC (an associate) and ASL (a 50:50 JV). 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 and Factoring Linkages in Ratings
Criteria for rating Credit Enhanced Debt
CARE's methodology for manufacturing companies
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 viz. liquid glucose, dextrose monohydrate, anhydrous dextrose, sorbitol and other by-products which find application in diverse industries like textile, chemical, process foods, pharmaceutical, paints and other industries. Its manufacturing facility is located at Kathwada, Ahmedabad having installed capacity of 710 TPD of maize processing as on March 31, 2020.
SIL has a subsidiary SSL, a JV i.e. ASL and an associate concern i.e. NBC which had reported TOI of Rs.12.51 crore, Rs.11.20 crore and Rs.79.18 crore respectively in FY19. Further, Sayaji group has presence in real estate business through Sayaji Samruddhi LLP.

Brief Financials (Rs. crore)-Consolidated	FY19 (A)	FY20 (A)
Total operating income	648.76	640.16
PBILDT	34.38	21.25
PAT	25.30	(2.35)
Overall gearing (times)	2.07	2.07
Interest coverage (times)	2.81	1.28

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	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	36.23	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
Fund-based - ST-Bills discounting/ Bills purchasing	-	-	-	30.00	CARE A3
Fixed Deposit	-	-	12 – 36 months	30.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	36.23	CARE BBB-; Stable	-	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.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	99.00	CARE BBB-; Stable / CARE A3	-	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-Letter of credit	ST	5.50	CARE A3	-	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	4.50	CARE BBB-; Stable / CARE A3	-	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	30.00	CARE A3	-	1)CARE A3 (25-Nov-19) 2)CARE A3 (04-Sep-19)	1)CARE A3 (11-Mar-19)	-
6.	Fixed Deposit	LT	30.00	CARE BBB- (FD); Stable	-	1)CARE BBB (FD); Negative (25-Nov-19) 2)CARE BBB (FD); Stable (04-Sep-19)	-	-

Annexure-3: List of Subsidiaries getting consolidated

Sr. No.	Name of the Entity	% holding by SIL@
1.	Alland and Sayaji LLP (erstwhile Sayaji Ingritech LLP)	50%
2.	Sayaji Seeds LLP	92.20%

@as on March 31, 2020; 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.

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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