Sayaji Seeds LLP

September 06, 2019

Ratings

Facility	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities	9.00	**CARE BBB (CE); Stable/CARE A3 (CE) [Triple B (Credit Enhancement); Outlook: Stable/A Three (Credit Enhancement)]**	**Reaffirmed**
Total facilities #	**9.00 (Rs. Nine crore only)**		

Details of instruments/ facilities in Annexure-1

Note: As per SEBI Circular SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019, CARE now assigns CE (Credit Enhancement) suffix for the ratings backed by explicit credit enhancements from third party/parent/group company. Previously, CARE had assigned SO (Structured Obligation) suffix for ratings backed by such credit enhancements.
#backed by unconditional and irrevocable corporate guarantee of Sayaji Industries Limited (SIL, rated 'CARE BBB; Stable/CARE A3').

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sayaji Seeds LLP (SSL) is based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by SIL.
The ratings assigned to the bank facilities/instruments of Sayaji Industries Limited (SIL) 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 with lean operating cycle and company management's articulation to monetize some of its non-core assets to support the operations of the company.
The ratings, however, continue to remain constrained on account of its moderate profitability, leveraged capital structure, moderate debt coverage indicators and modest 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. The ratings also factor moderation in its profitability in Q1FY20 (FY refers to the period from April 1 to March 31); albeit the same is envisaged to improve going forward as per management's articulation.
Inability of the company to improve its profitability and debt coverage indicators by passing on higher raw material cost through hike in selling price of its major products would be the key rating sensitivity. Also, timely monetization of non-core assets of the company and infusion of funds to support the operations and capex requirement of the company along with significant improvement in its capital structure while efficiently managing its working capital requirements would be additional rating sensitivities.

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 along with demonstrated track record of fund infusion to support the operations of the company: 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 which has been long associated with the company.
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), 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 promoted other entities namely N.B. Commercial Enterprises Limited [NBC: rated CARE BBB (CE); Stable /CARE A3 (CE)], Sayaji Ingritech LLP [SIG: rated CARE BBB (CE); Stable /CARE A3 (CE)] and Sayaji Seeds LLP [SSL: rated CARE

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

BBB (CE); Stable /CARE A3 (CE)] 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 chemicals, food, pharmaceuticals and lube-oil among others mainly in Gujarat region. SIG 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.
The promoters have also demonstrated their support to the operations of the company by infusing funds of Rs.21.16 crore through sale of their stake in a JV in FY19. They have further articulated their plans to infuse funds through sale of certain non-core real estate assets owned by SIL in FY20; out of which Rs.1.66 crore was already infused during Q1FY20.

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 32% of TOI in FY19) and various derivatives including liquid glucose (low margin product - forming 13% of TOI in FY19) along with higher margin products such as sorbitol (forming 19% of TOI in FY19), Dextrose Anhydrous (ADH - forming 9% of TOI in FY19) and Dextrose Monohydrate (DMH - forming 3% of TOI in FY19). By-products include Hydrol, Maize Gluten, Maize Oil, Oil Cake, Corn Steep Liquor, etc which contributed 22% of TOI in FY19. These products find application in diverse industries viz. textile, paper, pharmaceuticals, food and confectionery, cosmetic, paint as well as for poultry and animal feeds.
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 with exports forming 18% of its standalone TOI in FY18 as well as FY19. 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. During FY19, sales to top 10 customers comprised around 25% of net sales (standalone) as compared to 26% of net sales (standalone) in FY18 reflecting its diversified customer base.

Moderate scale of operation with lean operating cycle: On a consolidated level, TOI of SIL grew from Rs.590.80 crore in FY18 to Rs.648.76 crore in FY19 on the back of increase in sales realization with increase in maize prices; however, in terms of quantity the production remained stable. Domestic sales grew from Rs.487.00 crore in FY18 to Rs.532.94 crore in FY19 while export sales grew marginally from Rs.106.60 crore in FY18 to Rs.111.11 crore in FY19 due higher maize price in domestic market which reduced the competitiveness in the export market. SIL's standalone income (TOI of Rs.626.05 crore in FY19) continued to be the major contributor to the company's consolidated TOI (Rs.648.76 crore in FY19), with around 96% share (99% in FY18).
SIL had lean operating cycle of 27 days in FY19 (FY18: 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. Collection period also remained comfortable at 24 days in FY19.

Key Rating Weaknesses
Moderate profitability which further declined in Q1FY20: On consolidated basis, SIL has moderate profitability marked by profit before interest, lease, depreciation and tax (PBILDT) margin of 5.30% in FY19 as compared to 5.42% in FY18. Profit after tax (PAT) margin however, increased from 1.24% in FY18 to 3.90% in FY19 on the back of extraordinary income of Rs.21.16 crore in FY19 from the stake sale in one of its joint venture. Excluding this extraordinary income, PAT margin remained thin due to high interest and depreciation cost 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 is partly offset by proximity to various end customers (textile and pharmaceuticals) in Western India.
Further, PBILDT margin declined to 4.13% in Q1FY20 (6.37% in Q1FY19) due to increase in the raw material (maize) price which company was not able to fully pass-on to its customers due to fixed price nature of contract with some of its customers. With lower PBILDT, PAT had also declined to Rs.0.35 crore in Q1FY20 (this includes extraordinary income of Rs.1.66 crore) as compared to Rs.3.63 crore in Q1FY19. However, average sales realization of most of the products towards end-June, 2019 had shown signs of improvement as compared to end-March, 2019 which is expected to benefit SIL in coming quarters.
Leveraged capital structure and moderate debt coverage indicators: Capital structure of SIL remained leveraged marked by overall gearing of 2.07 times as on March 31, 2019 which improved from 2.52 times as on March 31, 2018 on account of accretion of profit to net-worth largely arising from extraordinary profit of Rs.21.16 crore on sale of its stake in a JV. However, total debt had exhibited an increasing trend on account of debt funded capex and increased working capital

borrowings to fund its high inventory as on March 31, 2019. It stood at Rs.165.84 crore as on March 31, 2019 which includes working capital borrowings of Rs.75.75 crore, term loan of Rs.44.42 crore, fixed deposit of Rs.24.22 crore, unsecured loan and inter-corporate deposit of Rs.5.45 crore along with guaranteed debt of NBC of Rs.16.01 crore. Fixed deposit 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 at maturity. Its debt coverage indicators remained moderate marked by total debt to gross cash accruals (TDGCA) of 4.24 times and PBILDT interest coverage of 2.81 times in FY19.

Presence in the 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 player like SIL are vulnerable to inherent risks associated with volatility in agri-based inputs prices as 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 Analysis

SIL's liquidity is marked by modest cash accruals against its repayment obligation and below unity current ratio. However, its cash flow from operation was moderate at Rs.25.45 crore in FY19 as against Rs.34.40 crore in FY18 which supported its liquidity. Average fund based working capital utilization remained moderate at 69% for past twelve months ended July 2019. It had cash and bank balance of Rs.2.44 crore as on March 31, 2019. To support the company's liquidity, the management has articulated its plans to monetize non-core assets (real estate properties) of the company during FY20, timely realization of which will be crucial from the liquidity perspective.

Analytical approach: Assessment of Guarantor, SIL

For SIL, CARE had analysed SIL's consolidated financials along with factoring in debt backed by its corporate guarantee. SIL has extended corporate guarantee for the bank facilities of its two subsidiaries i.e. SIG and SSL and one of its associate concern i.e. NBC. *List of entities getting consolidated in SIL is placed at* ***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: Factoring Linkages in Ratings
Criteria for rating Credit Enhanced Debt
CARE's methodology for manufacturing companies
Financial ratios – Non-Financial Sector

About the firm

Established in 2015, SSL 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 350 distributors and more than 7000 retailers 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)	FY18 (A)	FY19 (A)
Total operating income	4.29	11.20
PBILDT	0.22	0.69
PAT	0.01	-0.09
Overall gearing (times)	2.11	3.86
PBILDT Interest coverage (times)	1.11	1.02

About the Guarantor

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 son 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 industry. Its manufacturing facility is located at Kathwada, Ahmedabad having installed capacity of 710 TPD of maize processing as on March 31, 2019.
SIL has two main subsidiaries and one associate concern viz. SIG, SSL and 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	FY18 (A)	FY19 (A)
Total operating income	590.80	648.76
PBILDT	32.01	34.38
PAT	7.34	25.30
Overall gearing (times)	2.52	2.07
PBILDT Interest coverage (times)	2.57	2.81

A: Audited
Based on published consolidated results for Q1FY20, SIL has reported TOI of Rs.183.29 crore (Q1FY19: Rs.153.39 crore) with PAT of Rs.0.35 crore (Q1FY19: 3.63 crore).

Brief Financials (Rs. Crore)- Standalone	FY18 (A)	FY19 (A)
Total operating income	582.52	626.05
PBILDT	30.07	32.88
PAT	6.12	25.20
Overall gearing (times)	2.48	2.05
PBILDT Interest coverage (times)	2.55	2.87

A: Audited
Based on published standalone results for Q1FY20, SIL has reported TOI of Rs.175.56 crore (Q1FY19: Rs.146.31 crore) with PAT of Rs.0.43 crore (Q1FY19: 3.27 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

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/ ST-Cash Credit	-	-	-	6.00	CARE BBB (CE); Stable / CARE A3 (CE)
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	3.00	CARE BBB (CE); Stable / CARE A3 (CE)

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.	Fund-based - LT/ ST-Cash Credit	LT/ST	6.00	CARE BBB (CE); Stable / CARE A3 (CE)	-	1)CARE BBB (SO); Stable / CARE A3 (SO) (27-Dec-18)	-	-
2.	Fund-based - LT/ ST-Working Capital Demand loan	LT/ST	3.00	CARE BBB (CE); Stable / CARE A3 (CE)	-	1)CARE BBB (SO); Stable / CARE A3 (SO) (27-Dec-18)	-	-

Annexure-3: List of subsidiaries and joint ventures of SIL getting consolidated

Sr. No.	Name of the Entities	% holding by SIL@
1.	Sayaji Ingritech LLP	75.99%
2.	Sayaji Seeds LLP	92.20%
3.	Sayaji Corn Products Limited	99.99%

@as on March 31, 2019; however, Sayaji Corn Products Limited is non-operational.

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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