Sayaji Seeds LLP

December 02, 2019

Ratings

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

Details of instruments/ facilities in Annexure-1

 # Bank facilities are backed by unconditional and irrevocable corporate guarantee of Sayaji Industries Limited (SIL, rated 'CARE BBB; Negative/CARE A3').

Unsupported Ratings[2]	**CARE BB /CARE A4 (Double B /A Four)**

Note: Unsupported Rating does not factor in the explicit credit enhancement.

Detailed Rationale & Key Rating Drivers

The ratings of the bank facilities of Sayaji Seeds LLP (SSL) are based on the credit enhancement in the form of unconditional and irrevocable corporate guarantee extended by Sayaji Industries Limited (SIL; rated CARE BBB; Negative/CARE A3).

The ratings of 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 are also constrained by its subdued performance during H1FY20 (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.

Key Rating Drivers of SSL i.e. for Unsupported Rating

The unsupported ratings of SSL, based on its standalone credit assessment, are constrained by its nascent stage with small scale of operation, thin profitability, losses at PAT level, presence of the firm in competitive seed industry and seasonality associated with business having dependency on the vagaries of monsoon.

The unsupported ratings are, however, derived strength from experienced promoters and synergy derived from SSL being part of Ahmedabad based Sayaji group. The ratings also factors in the distribution network spread mainly across Gujarat, Rajasthan, Madhya Pradesh, Uttar Pradesh, Jharkhand and Chhatisgarh.

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 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
- Inability of the company to monetize its non-core assets within the envisaged timeline, thereby impacting the overall liquidity and debt coverage indicators of the company

Outlook: Negative

The outlook on the long-term rating of the bank facilities/fixed deposit instrument of SIL has been revised to "Negative" on CARE's expectation of lower than previously envisaged profitability for FY20 on the back of elevated raw material (i.e. Maize)

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

2 As Stipulated vide SEBI circular SEBI/HO/MIRSD/DOS3/CIR/P/2019/70 dated June 13, 2019 prices in the domestic market and high overhead cost. The outlook may be revised to 'Stable' in case of significant improvement in profitability along with timely monetization of its non-core assets as envisaged.

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), Sayaji Ingritech LLP (SIG) 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 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 with net loss in Q2FY20: 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.

PBILDT margin, however, declined from 3.22% during Q1FY20 to 1.23% during Q2FY20 (6.00% in Q2FY19) due to increase in the raw material (maize) price along with disruption in production for few days on account of maintenance of boiler, higher power cost due to lower gas based capital power generation (same was affected due to stoppage in digesters where the bio-organic processes and microbes have been washed out and were replaced) as well as higher provision related to employee benefits. With lower PBILDT and marginal increase in interest and finance cost, SIL reported loss of Rs.3.73 crore during Q2FY20 at PAT level as compared to net profit of Rs.0.35 crore (this includes extraordinary income of Rs.1.66 crore) in Q1FY20. However, as articulated by the management, with the arrival of new crop (from November 2019) in the market, the raw material (maize) price is expected to moderate which is likely to benefit SIL in coming quarters.

Leveraged capital structure and moderate debt coverage indicators: SIL had leveraged capital structure marked by adjusted overall gearing (after factoring in guaranteed debt) of 2.07 times as on March 31, 2019 (2.52 times as on March 31, 2018) which deteriorated to 2.54 times as on September 30, 2019 due to increase in total debt and reduction in net-worth base of the company with losses incurred during Q2FY20. Total debt had exhibited an increasing trend from Rs.165.84 crore as on March 31, 2019 to Rs.191.08 crore as on September 30, 2019. Debt profile of SIL as on September 30, 2019 includes working capital borrowings of Rs.108.28 crore, term loan of Rs.38.33 crore, fixed deposit of Rs.24.68 crore and inter-corporate deposit of Rs.3.78 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. SIL had moderate debt coverage indicators as on March 31, 2019 marked by total debt to gross cash accruals (TDGCA) of 4.24 times and PBILDT interest coverage of 2.81 times in FY19. Debt coverage indicators, however, deteriorated significantly during H1FY20 on the back of decline in profitability and cash losses reported by the company. Debt coverage indicators are, however, expected to remain at moderate level in FY20.

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- Stretched

SIL's liquidity is stretched marked by modest cash accruals against its debt repayment obligation, negative cash flow from operations and below unity current ratio. Cash flow from operation was negative at Rs.15.14 crore during H1FY20 as compared to positive cash flow from operation of Rs.22.77 crore during FY19. However, it derives cushion from its moderate average fund based working capital utilization of 73% for past twelve months ended October 2019. It also had cash and bank balance of Rs.1.14 crore as on September 30, 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: Credit Enhancement (CE) rating: Assessment of Guarantor, SIL; CARE has analysed Consolidated financials of SIL along with factoring in debt backed by its corporate guarantee. SIL has extended its unconditional and irrevocable corporate guarantee for the bank facilities to subsidiary i.e. SSL, its joint venture (JV) i.e. SSG and its associate concern i.e. NBC. *List of entities getting consolidated in SIL is placed at **Annexure-3**.*

Unsupported rating: Standalone while factoring operational, managerial and financial linkages with its parent company i.e. SIL.

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

About Guarantor - SIL
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 a subsidiary SSL, a JV i.e. SIG 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	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 H1FY20, SIL has reported TOI of Rs.323.39 crore (H1FY19: Rs.308.36 crore) with PAT of (-) Rs.3.38 crore (H1FY19: 23.46 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 H1FY20, SIL has reported TOI of Rs.313.91 crore (H1FY19: Rs.297.81 crore) with PAT of (-) Rs.3.11 crore (H1FY19: 23.57 crore).

About the firm – SSL
Established in 2015, Sayaji Seeds LLP (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 450 distributors 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	001	-0.09
Overall gearing (times)	2.11	3.86
PBILDT Interest coverage (times)	1.11	1.02

A: Audited

SSL reported net sales of Rs.9.50 crore during H1FY20 (Prov.).

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); Negative / CARE A3 (CE)
Fund-based - LT/ ST-Working Capital Demand loan	-	-	-	3.00	CARE BBB (CE); Negative / CARE A3 (CE)
Un Supported Rating-Un Supported Rating (LT/ST)	-	-	-	0.00	CARE BB / CARE A4

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); Negative / CARE A3 (CE)	1)CARE BBB (CE); Stable / CARE A3 (CE) (06-Sep-19)	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); Negative / CARE A3 (CE)	1)CARE BBB (CE); Stable / CARE A3 (CE) (06-Sep-19)	1)CARE BBB (SO); Stable / CARE A3 (SO) (27-Dec-18)	-	-
3.	Un Supported Rating-Un Supported Rating (LT/ST)	LT/ST	0.00	CARE BB / CARE A4	-	-	-	-

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

Sr. No.	Name of the Company	% holding by SIL@
1.	Sayaji Ingritech LLP	50.00%
2.	Sayaji Seeds LLP	92.20%
3.	Sayaji Corn Products Limited	99.99%

@as on September 30, 2019; 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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