

## The Sukhjit Starch & Chemicals Limited

October 09, 2017

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Long Term Bank Facilities	163.50	CARE A+; Stable (Single A Plus: Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	50.00 (enhanced from Rs.10 crore)	CARE A1 (A One)	Reaffirmed
Short Term Bank Facilities	-	-	Withdrawn
Fixed Deposits	48.00 (enhanced from Rs.45 crore)	CARE A+ (FD) [Single A Plus (Fixed Deposit)]	Reaffirmed
<b>Total</b>	<b>261.50</b> <b>(Rs. Two Hundred Sixty</b> <b>One Crore and Fifty Lakh</b> <b>Only) )</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings continue to draw strength from the position of The Sukhjit Starch & Chemicals Limited (SSCL) as one of the leading manufacturers of starch and its derivatives, experience of the promoters and the management team.

The ratings also favorably factor in the advantage arising out of multiple manufacturing units located in proximity to maize-producing areas, comfortable solvency and reputed clientele from diverse industries.

The ratings, are however, constrained by volatility in the prices of agro-based raw material and competition from the organized and unorganized units.

The company is also establishing a Mega Food Park Project. The total project cost is Rs.123.71 crore which is being funded through debt of Rs.40 crore, equity of Rs.33.71 crore and subsidy from Government of Rs.50 crore.

Going forward, the company's ability to improve the profitability margins and timely execution of Mega Food Park project would remain the key rating sensitivity.

### Detailed Description of Key Rating Drivers

#### Key rating Strengths

#### **Experienced Promoters**

SSCL was promoted by the Sardana family and associates in 1943 and has a long track record of operations. SSCL's promoters and management have vast experience in the starch/corn industry. Mr. I.K. Sardana (Managing Director) and Mr. K. K. Sardana (Joint Managing Director) are actively involved in the operations of the company.

#### **Strategic location of manufacturing units in proximity to maize producing regions**

Two manufacturing units of the company (Nizamabad and Malda units where maize is available in winters from Nov-Jan and in summers from April- July respectively) are located in proximity to the maize producing areas enabling easy availability and procurement of maize at competitive rates. Also SSCL has a plant in Phagwara (Punjab) where maize is available during winters/harvest of kharif crop & spring maize harvest (during June to August)

#### **Moderate financial risk profile marked by comfortable capital structure and liquidity position**

During FY17, the total operating income of the company exhibited a growth of 15.43% on account of increase in sales volume. The PBILDT margin however moderated to 7.76% (PY: 10.69%) on account of increase in raw material costs

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

(maize) due to consecutive droughts in the major maize producing states The Rabi harvest in Bihar has increased this year and Kharif harvest in Punjab is also expected to increase.

Overall gearing remains comfortable and is further improved to 0.51x (PY: 0.59x) as on March 31, 2017 on account of low CC limits utilization and strong net worth base. The interest coverage ratio remains comfortable at 3.79x in FY17 (PY: 3.69 times).

In May 2017, the SSCL has provided corporate guarantee to its 100% subsidiary viz. Sukhjit Mega Food Park & Infra Ltd for a term loan of Rs.40cr however the same has a moratorium period of 30 months. Considering the debt in SPV, the adjusted gearing as on March 31, 2018 is 0.75x and as on March 31, 2019 is 0.86x

The company's liquidity position is comfortable with cash and cash equivalents of Rs. 36.55 cr as on March 31, 2017 including Cash & bank balance was Rs 7.27 crore and investments in marketable securities of Rs. 29.28 crore.

#### ***Reputed clientele from diverse industries***

Starch and its derivative/by-products find application in diverse industrial and commercial application such as food & drink (confectionaries), paper & board, personal care & pharmaceuticals, textile, FMCG, animal & pet foods etc. It is used by the food industry as a sauce and soup thickener; gel former in puddings, suspension stabiliser and bodying agent in baking. The paper industry uses starch to enhance surface quality & textile industry uses it to improve fabric strength.

The client profile of SSCL includes reputed players like Dabur India Limited, Khanna Paper Mill, Heinz India, Bilt Graphic Paper Products Limited, Nestle, Marico amongst others. Also, SSCL has a wide network of selling and consignment agents across the country.

#### **Key Rating Weakness**

##### ***Volatility in agro-based raw material availability & prices***

Cost of Maize remained very high during the financial year 2016-17 due to significant fall in Maize production in the Rabi crop mainly due to drought in Bihar which meets most of the Maize requirements of user industry for the period from May to September. Cost of Maize remained high for the kharif crop also where harvesting starts from mid-October as demonetization severely affected the procurement (which are mostly carried out in cash) and other agricultural activities relating to Maize production during the months of November & December, 2016. The average per MT cost of raw material (maize) for the company increased by ~12.27% in FY17, in absolute terms from Rs.13,262 per MT in FY16 to Rs.14,889 per MT in FY17.

#### ***Prospects***

The favorable demand conditions in the domestic and export market augur well for the company. Starch finds applications in diverse industries which include food and beverage, paper, pharmaceutical, textile, etc. With the companies globally focusing on innovations in their product portfolio through R&D, the demand for starch and its derivatives has picked up in a number of industries in India as well as in the international markets. However, the increasing prices of maize may put pressure on margins. Going forward, the company's ability to improve the profitability margins and timely project execution of the project in SPV within the envisaged costs would remain the key rating sensitivity.

**Analytical approach:** Standalone

#### **Applicable Criteria**

- **Criteria on assigning Outlook to Credit Ratings**
- **CARE's Policy on Default Recognition**
- **Rating Methodology for Manufacturing Companies**
- **Criteria for Short Term Instruments**
- **Financial ratios – Non-Financial Sector**

#### **About the Company**

SSCL, promoted by the Sardana family and associates, was incorporated in 1943. SSCL is primarily engaged in the processing of maize (corn) and manufacturing of starch, its derivatives (liquid glucose, Sorbitol 70%, monohydrate dextrose, dextrin, etc) and other by-products. SSCL has four manufacturing units located at Phagwara (Punjab), Nizamabad (Andhra Pradesh), Malda (West Bengal), Gur Plah (Himachal Pradesh).

The total installed capacity for all the units was 204,000 MTPA (Metric ton per annum) of Starch and 141,300 MTPA for Glucose as on March 31, 2017.

Brief Financials (Rs. crores)	FY16 (A)	FY17 (A)	Q1FY18 (UA)
Total operating income	565.88	653.17	170.86
PBILDT	60.51	50.67	13.15
PAT	23.05	18.62	4.22
Overall gearing (times)	0.59	0.51	NA
Interest coverage (times)	3.96	3.79	NA

**Status of non-cooperation with previous CRA: NA**

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

**Analyst Contact:**

Name: Mr Manek Narang

Tel: 011-45333233

Mobile: 9810596225

Email: [manek.narang@careratings.com](mailto:manek.narang@careratings.com)

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

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**Annexure-1: Details of 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-Long Term	-	-	-	160.00	CARE A+; Stable
Term Loan-Long Term	-	-	30.07.2020	3.50	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	10.00	CARE A1
Fund-based - LT-Term Loan	-	-	-	0.00	Withdrawn
Fund-based - ST-Term loan	-	-	Proposed Loan	40.00	CARE A1
Fixed Deposit	-	-	-	48.00	CARE A+ (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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term	LT	160.00	CARE A+; Stable	-	1)CARE A+ (02-Sep-16)	1)CARE A+ (04-Sep-15)	1)CARE A+ (13-Aug-14)
2.	Term Loan-Long Term	LT	3.50	CARE A+; Stable	-	1)CARE A+ (02-Sep-16)	1)CARE A+ (04-Sep-15)	1)CARE A+ (13-Aug-14)
3.	Non-fund-based-Short Term	ST	10.00	CARE A1	-	1)CARE A1 (02-Sep-16)	1)CARE A1 (04-Sep-15)	1)CARE A1 (13-Aug-14)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	1)Withdrawn (02-Sep-16)	1)CARE A1 (04-Sep-15)	1)CARE A1 (13-Aug-14)
5.	Fixed Deposit	LT	48.00	CARE A+ (FD); Stable	-	1)CARE A+ (FD) (02-Sep-16)	1)CARE A+ (FD) (04-Sep-15)	1)CARE A+ (FD) (13-Aug-14)
6.	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+ (02-Sep-16)	-	-
7.	Fund-based - ST-Term loan	ST	40.00	CARE A1	-	-	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 99888 05650  
Tel: +91-172-5171 100 / 09  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030

E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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