The Sukhjit Starch and Chemicals Limited

November 26, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	295.00 (enhanced from Rs. 256 crore)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	91.00 (enhanced from Rs. 60 crore)	CARE A1 (A One)	Reaffirmed
Total Facilities	386.00 (Rs. Three Hundred and Eighty Six crore only)		
Fixed public Deposits	70.00 (Rs. Seventy crore only)	CARE A+ (FD); Stable (Single A Plus (Fixed Deposit); Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation for the ratings assigned to the bank facilities & instruments of The Sukhjit Starch and Chemicals Limited (SSCL) take into consideration the strong position of the company as one of the leading manufacturers of starch and its derivatives, experienced promoters and the management team. The ratings also favorably factor in the comfortable financial risk profile, advantage arising out of multiple manufacturing units located in proximity to maize-producing areas and reputed clientele from diverse industries. The ratings also factors in the fact that the company is in process of setting up a new unit as anchor unit in its wholly owned subsidiary Sukhjit Mega Food Park & Infra Limited (SMFP). The ratings are, however, constrained by volatility in the prices of agro-based raw material and competition from the organized and unorganized units. Going forward, the company's ability to enhance its scale of operations & overall profitability margins shall be the key rating sensitivities. Further, the ability of SSCL to complete its planned capex without any time & cost overrun shall also be critical for SSCL's credit profile going ahead.

<u>Rating Sensitivities</u>

Positive Factors

- Sustained improvement in operating income & profit margin over the projected years.
- Improvement in capital structure with sustenance in overall gearing below 0.6x

Negative Factors

- Overall gearing rising above 1x on a sustained basis.
- Total debt to GCA rising above 5x on a sustained basis.
- Significant increase in the operating cycle on a sustained basis.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters

SSCL was promoted by the Sardana family and associates in 1944 and has a long track record of operations. SSCL's promoters and management have vast experience in the starch/corn industry. The company's board of directors comprises of five directors looking after separate operational areas. Mr K.K. Sardana, MD has a vast experience in this field. He is supported by Mr. V.P. Kapahi, who is the Chairman of SSCL. The Board is assisted by well qualified and experienced management team from starch and food industry.

Strategic location of manufacturing units in proximity to maize producing regions

SSCL is primarily involved in processing of maize (corn) and manufacturing of starch, its derivatives and other by-products at its manufacturing units. Two of the manufacturing units (Nizamabad and Malda unit) are located in proximity to maize producing areas allowing easy availability and procurement of maize at competitive rates. Andhra Pradesh and Bihar are the leading producers of maize followed by other states like Karnataka, Uttar Pradesh, Madhya Pradesh and Rajasthan. The company is also setting up a new unit as an anchor unit inside SMFP which will have a maize grinding capacity of 600 TPD.

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

Diversified and Reputed clientele from diverse industries
Starch and its derivative products find application in diverse industrial and commercial application such as food & drink (confectionaries), paper & board, personal care & pharmaceuticals, textile, FMCG, animal and pet foods etc. It is used by the food industry as a sauce and soup thickener; gel former in puddings, suspension stabilizer 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, Heinz India, Bilt Graphic Paper Products limited, and Nestle India Ltd. amongst others. Also, SSCL has a wide network of selling and consignment agents across the country.

Comfortable financial risk profile
During FY19, the total operating income of the company exhibited a growth of around 6% on account of increase in sales volume and better sales realization. It reported total operating income of Rs.742.11 crore in FY19 (PY: 702.23 cr). In FY19, it reported PBILDT at Rs.93.96 cr as against Rs.69.03 cr in FY18. This was due to reduced raw material expenses throughout the year. In FY19, both PBILDT and PAT margins improved at stood at 12.7% (PY: 9.8%) and 5.6% (PY: 3.3%) respectively. The PBILDT margin improved on account of decrease in raw material costs (maize) towards year end owing to increased rabi harvest in Bihar. Further in H1FY20 also, SCCL reported 7% growth in its total operating income (H1FY20: Rs.374.82 crore & H1FY19: Rs.348.96 crore). The average cost per Metric tonne (MT) of raw material (maize) for the company decreased by ~4% in FY19, in absolute terms from Rs.14,000 per MT in FY18 to Rs.13,487 per MT in FY19.
The company is undertaking capacity expansion by setting up a new (anchor) unit inside Sukhjit Mega Food Park, Punjab and setting a co-generation plant in the Malda, West Bengal unit. For these purposes, SCCL has taken new term loan. The total outstanding debt at March 31, 2019 stood at Rs.151.34 crore (PY: 153.38 cr) and the net worth was Rs.287.48 crore (PY: 259.62 cr). Debt equity ratio and overall gearing stood at 0.31x (PY: 0.20) and 0.53x (PY: 0.59) respectively as on March 31, 2019. These projects are likely to get completed by Q4FY20. The ability of SSCL to complete its planned capex without any time & cost overrun shall also be critical for SSCL's credit profile going ahead.
<u>Liquidity: Adequate</u>
The company has sufficient liquidity both in cash and in form of marketable securities. Cash and bank balance as on March 31, 2019 stood at Rs.8.32 crore (PY: 6.28 cr) and liquid investments aggregated to Rs. 75.72 crore (PY: 46.38 cr). Current ratio and quick ratio stood at 1.70 times (PY: 1.47x) and 1.33 times (PY: 0.93x) respectively as on March 31, 2019. Liquid investments as on Sep 30, 2019 stood at Rs 27.54 crore. Further the average utilization of the working capital facilities for last 12 months ending July 2019 stood at ~57% leaving sufficient liquidity cushion. Further, SCCL has no repayments due in FY20 and the repayments for SSCL & also for the guaranteed debt of SMFP shall begin from FY21 only.

Key Rating Weaknesses
Investment in Sukhjit Mega Food Park and Infra Limited (SMFP, wholly owned subsidiary)
The company has formed a 100% SPV viz. SMFP to set up and operate a mega food-park. The SPV will provide plots for setting up of various food processing units including integrated milk processing unit, canning unit, ready to serve juices and beverages unit, dal and rice milling unit, instant traditional food unit and starch extraction unit amongst others. The SPV will generate revenue through leasing of developed plots to companies for setting up food processing facilities and levy of user charges to lessees for various common facilities in core infrastructure.
The entire project cost is approximately Rs. 123.71 crore to be funded through ~Rs.48.7 crore as subsidy from Ministry of Food Processing Industries (MOFPI), Rs.40 crore as term loan (guaranteed by SSCL) and balance Rs.33.71 crore as promoter equity from SSCL. Going ahead, the ability of SSCL to complete its planned capex in SMFP without any time & cost overrun is critical for SSCL's overall credit profile.

Volatility in agro-based raw material availability & prices
The Maize prices remain volatile on account of various factors including fluctuations in minimum support prices (MSP) by the government, actual production levels, inflation, growth in the economy, demand supply scenario etc. Maize is mainly a rain fed kharif crop which is sown just before the onset of monsoon and is harvested after retreat of the monsoon. Cost of Maize remains high for the kharif crop where harvesting starts from mid-October owing to higher freight cost from Maharashtra and southern regions. The government has raised the MSP of kharif crops in a bid to address rural distress. The MSP for FY20 (Kharif crop season) stands around Rs.1760/quintal.

Industry Outlook
The Indian starch and derivatives market scenario has witnessed significant changes in the last few years. Starch processing is one of the top five food processing industries in India with a significant history of high employment, food product growth and food infrastructure developments. Maize is the major raw material used to produce starches and the derivatives. Of the total maize produced in India, only 10 to 12 percent is being consumed by the starch industry. Poultry and animal feed industry get priority in terms of maize supply over the starch industry. Hence, for the CWMs (corn wet mills), obtaining the right quality of maize as well as ensuring a seamless supply of maize are the most important for the good quality and continuous production

of starches and sweeteners. The growing consumption of convenience foods and the healthy year-on-year growth in the paper and textile industries are creating highly a fertile ground for the growth in corn starch sales across the world, but particularly in the Asia Pacific region. The major users of starches and derivatives are food, textile, paper, and pharma sectors.

High-value food processing industry is a promising sector where the demand for starches and derivatives is in a nascent stage, but strong. The demand for Indian starch in food is increasing by 20 percent with frozen food being the dominating segment; the use of starch in noodles and soups is also increasing, use of starch in ground spices is also a key contributor.

Analytical approach: Standalone along with factoring in the debt of the subsidiary (Sukhjit Mega Food Park & Infra Ltd) in respect of which corporate guarantee has been extended by SSCL.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology for Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
CARE's Methodology for factoring linkages in ratings

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. These products find application in diverse industrial and commercial uses such as food & drink (confectionaries), paper & board, personal care & pharmaceuticals, textile, FMCG, animal & pet foods etc.

SSCL has four operational manufacturing units located at Phagwara (Punjab), Nizamabad (Telangana), Malda (West Bengal), Gur Plah (Himachal Pradesh) and one new unit is being set up by the name of Sukhjit Corn Products, which will be operational from March-20. The total installed capacity for all the operational units is 2,04,000 MT of Starch and 1,41,300 MT of Glucose as on March 31, 2019 and 12,000 MT for Sorbitol. The new unit which will be set up inside SMFP will have maize grinding capacity of 600 TPD. SSCL is in process of setting up a new unit as anchor unit in its wholly owned subsidiary Sukhjit Mega Food Park & Infra Limited (SMFP). The total capex is around Rs.152 crore which is being funded partly via debt of Rs. 75 crore and remaining via internal accruals and current investments whereas the total cost of setting up SMFP is around Rs 123.71 crore which is being funded partly through debt of Rs 40 crore, equity of Rs 33.71 crore and balance from the subsidy from government.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	702.23	742.11
PBILDT	69.03	93.96
PAT	23.03	41.68
Overall gearing (times)	0.59	0.53
Adjusted Overall gearing (times)*	0.60	0.65
Interest coverage (times)	3.94	5.77

A: Audited
** factoring in debt of the subsidiary (SMFP)*

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-Long Term	-	-	-	200.00	CARE A+; Stable
Term Loan-Long Term	-	-	May 2024	20.00	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	20.00	CARE A1
Fund-based - ST-Working Capital Demand loan	-	-	February 2020	71.00	CARE A1
Fund-based - LT-Term Loan	-	-	May 2025	75.00	CARE A+; Stable
Fixed Deposit	-	-	-	70.00	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 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-Long Term	LT	200.00	CARE A+; Stable	-	1)CARE A+; Stable (13-Dec-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (02-Sep-16)
2.	Term Loan-Long Term	LT	20.00	CARE A+; Stable	-	1)CARE A+; Stable (13-Dec-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (02-Sep-16)
3.	Non-fund-based-Short Term	ST	20.00	CARE A1	-	1)CARE A1 (13-Dec-18)	1)CARE A1 (09-Oct-17)	1)CARE A1 (02-Sep-16)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	-	-	1)Withdrawn (02-Sep-16)
5.	Fixed Deposit	LT	70.00	CARE A+ (FD); Stable	-	1)CARE A+ (FD); Stable (13-Dec-18)	1)CARE A+ (FD); Stable (09-Oct-17)	1)CARE A+ (FD) (02-Sep-16)
6.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (09-Oct-17)	1)CARE A+ (02-Sep-16)
7.	Fund-based - ST-Working Capital Demand loan	ST	71.00	CARE A1	-	1)CARE A1 (13-Dec-18)	1)CARE A1 (09-Oct-17)	-
8.	Fund-based - LT-Term Loan	LT	75.00	CARE A+; Stable	-	1)CARE A+; Stable (13-Dec-18)	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Working Capital Demand Loan	• The Sukhjit Mega Food Park term loan and Anchor Unit term loan should not exceed Rs. 115 crore • Term loan for food park should have a minimum moratorium of 2.5 years and min repayment of 5 years, post moratorium while term loan for anchor unit should have a minimum moratorium of 18 months and minimum repayment period of 5 years, post moratorium
2. Term Loans	• The company will not extend any advances or loans to group companies/associates/subsidiaries/3rd parties except for SMFP project for an amount upto Rs.45 cr and for other subsidiaries upto Rs.5 cr • The company should maintain a minimum DSCR of 2 during the tenor of the availed bank facilities. TOL/TNW should not exceed 2:1x and current ratio should be maintained at min 1.33 • If the outstanding public deposits fall below Rs. 50 crore at any point of time, the promoters will infuse matching long term funds in the company if not matched by the internal accruals of the company.
B. Non financial covenants	
Fixed Deposits	In case of any adverse change in credit rating, the depositors will be allowed to withdraw deposits without any penalty

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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