

The Sukhjit Starch and Chemicals Limited

December 13, 2018

Ratings

Facilities*	Amount (Rs. crore)	Ratings ¹	Remarks
LT Bank Facilities	256.00 (enhanced from Rs 163.50 crore)	CARE A+; Stable (Single A Plus: Outlook: Stable)	Reaffirmed
ST Bank Facilities	60.00 (enhanced from Rs.50 crore)	CARE A1 (A One)	Reaffirmed
Total	316.00 (Rs. Three hundred and sixteen 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 of the ratings continue to take into consideration 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 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.150 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 SPV 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 subsidy from government of Rs 50 crore.

Going forward, the company's ability to improve the profitability margins along with timely execution of SMFP and SSCL's capex would remain the key rating sensitivities.

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 comprises of nine directors looking after separate operational areas. Mr I.K. Sardana, MD has an experience of more than 50 years in the company. He was also Ex-President of the All India Starch Mfg. Association and is ably supported by his brother Mr K.K. Sardana who also has an experience of around 45 years in the 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, Bihar, Karnataka, Uttar Pradesh, Madhya Pradesh and Rajasthan are the leading producers of maize.

Diversified and 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 Nestle India Limited, ITC Limited, Mondelez India Food Pvt Ltd amongst others. Also, SSCL has a wide network of selling and consignment agents across the country.

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

Financial risk profile

During FY18, the total operating income of the company exhibited a growth of around 7% to Rs 700.70 crore (PY: 653.17 crore) on account of increase in sales volume. The PBILDT margin improved to 9% (PY: 7.97%) on account of decrease in raw material costs (maize) owing to increased Rabi harvest in Bihar. The average cost per Metric tonne (MT) of raw material (maize) for the company decreased by around 6% in FY18, in absolute terms from Rs.14, 889 per MT in FY17 to Rs.14, 000 per MT in FY18.

The overall gearing remains comfortable, however slightly moderated to 0.67x (PY: 0.51x) as on March 31, 2018 on account of higher CC limits utilization. The interest coverage ratio remains comfortable at 3.62x in FY18 (PY: 3.90 times).

Liquidity

The liquidity profile of the company is comfortable with the average working capital utilization of 70% for the last 12 months ending October 2018. The company increased procurement owing to lower prices of maize during FY18. The operating cycle increased from 54 days in FY17 to 66 days in FY18.

Further, SSCL is required to incur a capex of around Rs 130 crore and an equity commitment of Rs 22.97 crore in SMFP. The same shall be funded by additional term loans of Rs 75 crore (already tied up) and current investments/internal accrual of Rs 135.97 crore. As on September 30, 2018, the company had cash and cash equivalents amounting to Rs 48.11 cr (including Rs. 6.20 cr in fixed deposits and current investments of around Rs 38.96 crore).

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 MFP (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. 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. 50 crore as subsidy from MOFPI, Rs. 40 crore as term loan and balance Rs. 33.71 crore as promoter equity from SSCL. The company expects to commence its operations by September, 2019.

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. Bihar meets most of the Maize requirements of the company for the period from May to July. Cost of Maize remains high for the kharif crop also where harvesting starts from mid-October owing to higher freight cost from Maharashtra and southern regions. The MSP for FY19 (Kharif crop season) stands around Rs 1700/quintal.

Analytical approach: Standalone**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology for Manufacturing Companies](#)

[CARE's methodology for Short-term Instruments](#)

[CARE's methodology for 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. 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 manufacturing units located at Phagwara (Punjab), Nizamabad (Telangana), Malda (West Bengal), Gur Plah (Himachal Pradesh). The total installed capacity for all the units was 2,04,000 MT of Starch and 1,41,300 MT of Glucose as on March 31, 2018 and 12,000 MT for Sorbitol.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	653.17	700.70
PBILDT	50.67	63.50
PAT	18.62	23.03
Overall gearing (times)	0.45	0.60
Interest coverage (times)	3.79	3.62

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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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- CC	-	-	-	180.00	CARE A+; Stable
Term Loan-Long Term	-	-	April, 2019	1.00	CARE A+; Stable
Non-fund-based-Short Term	-	-	-	10.00	CARE A1
Fund-based - ST-Working Capital Demand loan	-	-	-	50.00	CARE A1
Fund-based - LT-Term Loan	-	-	Q4FY27	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based-Long Term	LT	180.00	CARE A+; Stable	-	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (02-Sep-16)	1)CARE A+ (04-Sep-15)
2.	Term Loan-Long Term	LT	1.00	CARE A+; Stable	-	1)CARE A+; Stable (09-Oct-17)	1)CARE A+ (02-Sep-16)	1)CARE A+ (04-Sep-15)
3.	Non-fund-based-Short Term	ST	10.00	CARE A1	-	1)CARE A1 (09-Oct-17)	1)CARE A1 (02-Sep-16)	1)CARE A1 (04-Sep-15)
4.	Fund-based - LT/ ST-Cash Credit	LT/ST	-	-	-	-	1)Withdrawn (02-Sep-16)	1)CARE A1 (04-Sep-15)
5.	Fixed Deposit	LT	70.00	CARE A+ (FD); Stable	-	1)CARE A+ (FD); Stable (09-Oct-17)	1)CARE A+ (FD) (02-Sep-16)	1)CARE A+ (FD) (04-Sep-15)
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	50.00	CARE A1	-	1)CARE A1 (09-Oct-17)	-	-
8.	Fund-based - LT-Term Loan	LT	75.00	CARE A+; Stable	-	-	-	-

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