

Universal Starch Chem Allied Limited

November 22, 2019

Ratings

Facilities/Instruments	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	33.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook-Stable; ISSUER NOT COOPERATING)	Issuer not cooperating; Revised from CARE BB- ; Stable; on the basis of best available information
Short-term Bank facilities	13.40	CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)	Issuer not cooperating; Based on best available information
Total Facilities	46.40 (Rupees Forty Six crore and Forty lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Universal Starch Chem Allied Limited to monitor the rating(s) vide e-mail communications/letters dated July 7, 2019, August 8, 2019, August 14, 2019, September 30, 2019, October 7, 2019 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the publicly available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The rating on Circle Infotech private limited bank facilities will now be denoted as **CARE B+; Stable; CARE A4; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above ratings.

The ratings have been revised on account of decrease in total operating income by 19.30% in H1FY20 over H1FY19 along with operating and net loss incurred during H1FY20. CARE views information availability risk as a key factor in its assessment of credit risk.

Detailed description of the key rating drivers

At the time of last rating on August 30, 2018 the following were the rating strengths and weaknesses (updated for the information available from Bombay stock exchange):

Key Rating Weaknesses

Detailed description of the key rating drivers

Fluctuating scale of operations coupled with low capitalization: The scale of operations of USAL has been fluctuating over FY17-FY19 (refers to the period April 1 to March 31), with the total operating income ranging from Rs.198.85-281.10 crore over the same period, owing to fluctuations in supply of raw materials leading to fluctuations in production quantity. Moreover, given the accumulated losses, the tangible net-worth stood relatively small as on March 31, 2019 which limits the financial flexibility of the company to the extent. Further during H1FY20 the TOI has decreased by 19.30% to Rs.115.37 crore from Rs.142.97 crore in H1FY19.

Weak profitability position with net losses incurred during past three years which are susceptible to volatile raw material prices: The profitability position of USAL stood weak with net losses over FY16-FY18. However the company has registered PAT of Rs.1.42 crore in FY19. During H1FY20, the company has incurred operating and net loss of Rs.13.39 crore and Rs.7.16 crore respectively. Moreover, the profitability has been fluctuating over the same period owing to fluctuating prices of maize, given the same being an agro-commodity.

Highly leveraged capital structure and moderately weak debt coverage indicators: The capital structure of USAL stood moderately leveraged with an overall gearing stood at 1.33x as on March 31, 2019, given the high reliance on external debt to fund the working capital requirements as well as capital expenditures. Given this, albeit improved gross cash accruals

²Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

*Issuer did not cooperate; Based on best available information

(GCA) in FY18, the debt coverage indicators stood moderate in FY19. However, owing to operating and net loss incurred during H1FY20, debt coverage indicators remained at distressed level.

Working capital intensive nature of operations: The operations of USAL are working capital intensive in nature with funds of over 30 days blocked in inventory and over 30-40 days blocked in debtors. On the other hand, the company extend the credit period of over 75-90 days to its suppliers. Furthermore, owing to net loss during past three years, the company has met its working capital requirements through working capital term loan and also the utilization of its working capital limits stood high.

Presence in competitive & seasonal industry: USAL operates in a competitive agro-commodity industry wherein a large number of organized & unorganized players are engaged in processing of various types of agro commodities, including maize. As a result of the same the company operates on low profit margins and also provides extended credit period to its customers.

Susceptibility of profit margins to fluctuation in the raw material prices which are linked to agro commodities: Given the maize being an agro-commodity, the profit margins of the company are highly exposed to availability of maize which is highly related to the production during the year and seasonality of the same, since the maize procurement season starts from October and lasts till February in Maharashtra. The aforementioned things are evident from the fluctuating material consumption cost during past three years coupled with availability of the maize resulted in fluctuation in scale of operations.

Key Rating Strengths

Long track record of operations in manufacturing of maize starch coupled with diversified product portfolio: USAL possesses a long track record of over 45 years of operations in manufacturing of maize starch and other by-products. Furthermore, USAL's product portfolio is well diversified which comprises various by-products other than maize starch, viz. pregelatinized starch, liquid glucose, thin boiling starch, white dextrin, dextrose monohydrate, dextrose anhydrous, dextrose syrup, etc.

Highly experienced promoters with an average of two decades of experience in manufacturing of maize starch: The overall operations of USAL are looked after by the promoters Mr. Jitendrasinh Rawal, Mr. Ripudamansingh Vaghela, Mrs. Hansa Vaghela and Mr. Gulabsingh Chaudhary, who possess a total experience of over 45 years, 4 years, 4 years and 40 years respectively in manufacturing of maize starch.

Wide end-user applications coupled with established relationship with diversified clientele & suppliers: The products manufactured by USAL find wide end-user applications, wherein the primary product viz. MSP (Maize Starch Powder) finds application in textiles, food industry and pharmaceuticals; whereas the other by-products find application in pharmaceuticals, food processing (soups, sauces, jams, jellies, etc.), laundry, gums & adhesives, oil well drilling, chemicals, paper, etc. Moreover, the customer profile of the company is well diversified with the top 5 customers comprising 26.18% of the net sales in FY18.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

[CARE's Methodology for Manufacturing Companies](#)

[Financial ratios \(Non-Financial Sector\)](#)

About the Company

Incorporated in 1973 by Mr. Jitendrasinh Rawal, USAL is engaged in manufacturing of maize starch at its manufacturing facility located at Dondaicha in Dhule, Maharashtra, equipped with an installed capacity of 500 MT per day of maize crushing (utilized at 57.47% in FY18 and 83% in Q1FY19). The company is engaged in wet milling of maize for manufacturing of maize starch and other by-products which find varied applications across a wide range of industries viz. textiles, food processing, pharmaceuticals, laundry, gums & adhesives, chemicals, paper, etc. The products of the company are catered to the domestic market in major parts of India, coupled with exports to UAE, Kenya and Nigeria, forming less than 2% of the annual revenues. On the other hand, the primary raw material viz. maize is procured from the domestic suppliers of the same in Maharashtra.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	198.85	281.10
PBILDT	8.53	13.60
PAT	-0.02	1.42
Overall gearing (times)	3.97	1.33
Interest coverage (times)	2.35	2.23

A: Audited;

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-Term Loan	-	-	-	26.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	0.40	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Fund-based - LT-Working Capital Demand loan	-	-	-	2.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information
Non-fund-based - ST-Letter of credit	-	-	-	13.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information

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-Term Loan	LT	26.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	-	1)CARE BB-; Stable (30-Aug-18)	-	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	-	1)CARE BB-; Stable (30-Aug-18)	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.40	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (30-Aug-18)	-	-
4.	Fund-based - LT-Working Capital Demand loan	LT	2.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB-; Stable on the basis of best available information	-	1)CARE BB-; Stable (30-Aug-18)	-	-
5.	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (30-Aug-18)	-	-

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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