Universal Starch-Chem Allied Limited

August 30, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	33.00	**CARE BB-; Stable (Double B Minus; Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	13.40	**CARE A4 (A Four)**	**Assigned**
Total facilities	**46.40 (Rupees Forty Six crore and Forty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Universal Starch-Chem Allied Limited (USAL) are constrained by fluctuating scale of operations coupled with low capitalization, weak profitability with net losses incurred during past three years ending FY18 (refers to period April 1 to March 31), highly leveraged capital structure & moderately weak debt coverage indicators, working capital intensive nature of operations, susceptibility of profit margins to volatility of raw material prices and presence in competitive & fragmented industry.

The ratings, however, derive strength from the company's long track record of operations coupled with diversified product portfolio, highly experienced promoters and wide end-user applications coupled with established relationship with diversified clientele & suppliers.

The ability of the company to increase the scale of operations, improve profitability amidst competitive & seasonal scenario, improve capital structure and liquidity position by efficient the working capital management is the key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Fluctuating scale of operations coupled with low capitalization: The scale of operations of USAL has been fluctuating over FY16-FY18 (refers to the period April 1 to March 31), with the total operating income ranging from Rs.165-200 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, 2018 which limits the financial flexibility of the company to the extent.

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. 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 highly leveraged with an overall gearing ranging from 2.50-4 times over FY16-FY18, 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 (GCA) in FY18, the debt coverage indicators stood moderately weak in FY18.

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

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

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
[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)	FY17 (A)	FY18 (A)
Total operating income	217.03	198.85
PBILDT	2.13	8.53
PAT	-4.22	-0.02
Overall gearing (times)	2.86	3.97
Interest coverage (times)	0.55	2.35

A: Audited

Status of non-cooperation with previous CRA: Not applicable

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

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	November, 2024	26.00	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	5.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.40	CARE A4
Fund-based - LT-Working Capital Demand loan	-	-	-	2.00	CARE BB-; Stable
Non-fund-based - ST-Letter of credit	-	-	-	13.00	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 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 - LT-Term Loan	LT	26.00	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB-; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.40	CARE A4	-	-	-	-
4.	Fund-based - LT-Working Capital Demand loan	LT	2.00	CARE BB-; Stable	-	-	-	-
5.	Non-fund-based - ST-Letter of credit	ST	13.00	CARE A4	-	-	-	-

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