July 20, 2017

Sayaji Industries Limited

Summary of rated instruments

Instrument*	Rated Amount (in Rs. crore)	Rating Action
Cash credit Limits	40.00	[ICRA]BBB- (Stable); re-affirmed
Term loans	13.00 (revised from 25.50 crore)	[ICRA]BBB- (Stable); re-affirmed
Purchase Bill Discounting	40.00	[ICRA]BBB- (Stable); assigned
Purchase Bill Discounting (Proposed)	2.00	[ICRA]BBB- (Stable); assigned
OD-IP	4.40	[ICRA]BBB- (Stable); assigned
Bank Guarantee	2.60	[ICRA]A3; re-affirmed
Letter of Credit	1.55	[ICRA]A3; re-affirmed
Medium Term – Fixed Deposit Programme	20.00 (enhanced from Rs. 18.00 crore)	MA-(Stable) re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) on the Rs. 13.00-crore[1] term loans, Rs. 40.00-crore cash credit facility of Sayaji Industries Limited (SIL)[2]. ICRA has assigned the long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 42.00 purchase bill discounting facility and Rs. 4.40-crore OD facility of SIL. ICRA has re-affirmed the short term rating of [ICRA] A3 (pronounced ICRA A three) on the Rs. 4.15-crore short term non-fund based facilities of SIL. ICRA has reaffirmed the medium term rating of MA- (pronounced ICRA M A minus) on the Rs. 20.00-crore (enhanced from Rs. 18.00 crore) public deposit programme of SIL. The outlook on the long term and medium term rating is ‘stable’.

Rationale

The ratings reaffirmation continues to take into account the company’s established track record of more than seven decades in manufacturing starch and its derivatives and its diversified product profile and the strong and reputed clientele base of the company with a track record of repeat business.

The ratings are, however, constrained by the vulnerability of its operating margins to maize prices, which has been on rise in the recent past, high gearing levels and moderate debt coverage metrics. There is a sizeable debt repayment obligation in the near term, although the anticipated improvement in accruals and refinancing of part of the debt to support the repayments. The ratings also factor in the highly competitive nature of the agro-based industry marked by the presence of both large and organised players and the risk inherent with respect to availability of maize (key raw material) and its crop harvests. Further, the ratings also take into account the corporate guarantee provided by SIL to its Group entities (N B Commercial Pvt. Ltd., Sayaji Seeds LLP and Sayaji Ingritech LLP), which exposes the credit profile of SIL to the financial performance of these Group companies.

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[1] 100 lakhs = 1 crore = 10 million

[2] For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications.

Going forward, ICRA expects the company's topline to witness moderate growth supported by a stable demand outlook and expected volume off-take from existing customers. The key rating sensitivity would be the ability of the company to efficiently manage the impact of raw material (maize) price fluctuations on its profitability, improve capital structure and debt coverage indicators. Further, any large incremental debt-funded capex would also be a key rating monitorable.

Key rating drivers

Credit strengths

- Established track record of the company of over seven decades in manufacturing starch and its derivatives
- Product profile consists of several downstream derivatives of starch used in various industries like textile, processed foods, pharmaceuticals etc. providing cushion against industry-specific downturns
- Strong and reputed clientele base with track record of repeat business

Credit weakness

- Financial risk profile characterised by moderate profitability, leveraged capital structure and average debt coverage indicators
- Profitability exposed to changes in maize prices and the company's ability to pass on any adverse price fluctuations to the customers
- Competition from other established players as well as smaller manufacturers
- Risks inherent in an agro-based industry like raw material availability and crop harvest

Description of key rating drivers:

The sales mix for SIL can be divided primarily into four categories based on the applications which include the direct use as starch in industries like textile, paper etc.; use of liquid glucose, dextrose monohydrate, glucose and sorbitol in food and confectionery; use of anhydrous dextrose in drugs and pharmaceutical manufacturing and remaining by-products used for varied purposes in pharmaceutical, cosmetic, paint industries and as a protein basis for animal and poultry feeds. In FY2017, SIL recorded net sales of ~ Rs. 530 crore, of which ~42% was through the processed foods segment, ~29% through starch, ~21% through by-products and the remaining 8% from the drugs and pharmaceutical manufacturing.

Over the years, SIL has derived a majority of its revenue from domestic sales (84% of sales in FY2017) with exports witnessing a decline due to adverse economic/geo-political conditions in the key markets. The clientele base for SIL is strong and diversified and company enjoys an established relationship with many of these customers which has supported the revenue growth of the company over the years.

SIL has incurred a capex of ~Rs. 11.20 crore in FY2017, primarily towards upgradation of raw material and starch packing facilities and the balance towards scheduled repairs and process automatisation.

The operating income of the company grew by 8% from Rs. 491 crore in FY2016 to Rs. 533 crore in FY2017 on account of the increase in sales volume of starch and sorbitol segments. The operating margins have moderated from 4.44% in FY2016 and to 4.17% in FY2017, owing to the increase in input cost (mostly maize prices) which could not be fully passed on to the customers. Consequently, the net margins remained low at 0.74% in FY2017 with high interest cost and depreciation. The return indicators continue to remain moderate as reflected by RoCE at 10.30% and RoNW at 7.79% during FY2017.
The Total Debt remains almost flat at Rs. ~106 crore in FY2017 and primarily includes working capital borrowings. The gearing remained high at 2.01 times as on FY2017-end. In line with moderate profitability and high reliance on debt, the debt coverage indicators for the company remained average, with OPBDIT/I&F of 1.96 times during FY2017, NCA/Debt at 12% during FY2017.

The working capital intensity remained low in FY2017 as reflected by NWC/OI of 6%. The fund from operations for the company continues to remain positive over the years. However, the free cash flows continue to remain negative due to the outgo towards capex each year.

Analytical approach:
For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria
Corporate Credit Rating Methodology

About the company:
Incorporated in 1941, Sayaji Industries Limited (SIL) is promoted by the Mehta family and is involved in manufacturing of starch, its downstream derivatives viz. liquid glucose, dextrose monohydrate, anhydrous dextrose, sorbitol and byproducts like gluten, maize oil etc. which finds applications in textile, processed foods, pharmaceuticals, chemical, paper and other industries. The manufacturing facility is located at Kathwada, Ahmedabad and is ISO 9001:2008 certified.

In FY2017, SIL reported an operating income of Rs. 533.01 crore and profit after tax of Rs. 3.93 crores as against operating income of Rs. 491.36 crore and profit after tax of Rs. 2.73 crores in FY2016.

Table: Key Financial Indicators

Particulars	**FY2016**	**FY2017**
Operating income (Crores)	491.36	533.01
PAT (Crores)	2.73	3.93
OPBDIT/ OI (%)	4.44%	4.17%
RoCE (%)	9.93%	10.30%
Total Debt/ TNW (times)	2.11	2.01
Total Debt/ OPBDIT (times)	4.67	4.76
Interest coverage (times)	1.96	1.96
NWC/ OI (%)	6%	6%

Source: Financial statements of SIL

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

Table:

S.No	Name of Instrument	Current Rating (2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	June 2016	April 2015	April 2014
1.	Cash credit	Long Term	40.00	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB- (Stable)
2.	Term loans	Long Term	13.00	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB (Stable)	[ICRA] BBB- (Stable)
3.	Purchase Bill Discounting	Long Term	40.00	[ICRA] BBB- (Stable)	-	-	-
4.	Purchase Bill Discounting (Proposed)	Long Term	2.00	[ICRA] BBB- (Stable)	-	-	-
5.	OD-IP	Long Term	4.40	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	-	-
6.	Bank Guarantee	Short term	2.60	[ICRA] A3	[ICRA] A3	[ICRA] A3+	[ICRA] A3
7.	Letter of Credit	Short term	1.55	[ICRA] A3	[ICRA] A3	[ICRA] A3+	[ICRA] A3

S.No	Name of Instrument	Current Rating (2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017	June 2016	April 2015	April 2014
1.	Medium Term – Fixed Deposit Programme		20.00	MA- (Stable)	MA- (Stable)	MA- (Stable)	MA- (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Name of the instrument	Date of Issuance/Sanction	Coupon rate	Maturity Date	Amount Details (Rs. crore)	Current Rating and Outlook
Term loans	-	-	February 2020	13.00	[ICRA]BBB- (Stable)
Cash Credit	-	-	-	40.00	[ICRA]BBB- (Stable)
Purchase Bill Discounting	-	-	-	40.00	[ICRA]BBB- (Stable)
Purchase Bill Discounting (Proposed)	-	-	-	2.00	[ICRA]BBB- (Stable)
OD-IP	-	-	-	4.40	[ICRA]BBB- (Stable)
Bank Guarantee	-	-	-	2.60	[ICRA]A3
Letter of Credit	-	-	-	1.55	[ICRA]A3
Medium Term – Fixed Deposit Programme	-	-	-	20.00	[ICRA]MA-(Stable)

Source: Sanction letter of SIL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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