August 19, 2019

Sayaji Industries Limited:Update on material event; ratings reaffirmed; outlook revised to Negative

Summary of rated instrument

Instrument*	Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposits	20.00	20.00	MA- reaffirmed; outlook revised to 'Negative' from Stable
Total	**20.00**	**20.00**	

Material event

Quarterly Results – Q1 FY2020

Sayaji Industries Limited (SIL) has announced its quarterly results of Q1 FY2020 on August 7, 2019. The company reported an operating income (OI) of Rs. 174.94 crore with operating profit (OPBDITA) of Rs. 5.09 crore and profit after tax (PAT) of Rs. 0.43 crore in Q1 FY2020, against an OI of Rs. 143.74 crore with OPBDITA of Rs. 6.43 crore and PAT of Rs. 3.27 crore in Q1 FY2019.

Impact of the material event

ICRA has reaffirmed the medium-term ratings assigned to SIL's Rs. 20.00-crore fixed deposits programme at [ICRA]MA- (pronounced ICRA M A minus). The outlook has been changed to Negative from Stable due to weaker-than-expected performance in Q1 FY2020.

The previous detailed rating rationale is available on the following link: Click here

Rationale

The change in outlook takes into account the expected weakening in SIL's financial profile in FY2020, compared to FY2019 as well as the earlier expectation, due to a sharp rise in maize prices from November 2018. This has led to moderation in its profit margin and interest coverage indicator in Q1 FY2020, given the inability to full pass on the same to the customer. ICRA expects the stress on margins and subsequently on debt coverage indicators to continue till H1 FY2020, with any likely recovery only anticipated in H2 FY2020, with the arrival of new maize crop. The rating continues to factor in the stiff competition in maize processing and derivatives industry marked by the presence of both large organised and unorganised players and the risk inherent with respect to availability of maize and its crop harvests. Further, the rating considers the corporate guarantees provided by SIL to its Group entities (N.B. Commercial Enterprises Limited, Sayaji Seeds LLP and Sayaji Ingritech LLP), which expose its credit profile to the financial performance of these companies.

The rating however, continues to factor in the company's established track record spanning more than seven decades in manufacturing starch and its derivatives, its diversified product profile and the strong and reputed clientele base with a track record of repeat business.

Outlook: Negative

ICRA believes that SIL's financial profile will be under pressure in FY2020, given the unprecedented rise in maize prices and its inability to pass on the same to the final customer, leading to weakening of margins and debt metrics. The rating will be downgraded if the decline in margins is not arrested and the softening of maize prices is delayed leading to lower-than-anticipated profitability and cash accruals. The outlook may be revised to Stable, if the company is able to revive the margins, with better ability to pass on any rise to the customers, which in turn leads to an improvement in coverage indicators as well as cash accruals. Any monetisation of non-core assets, which helps in materially improving the company's liquidity profile, will also be a positive rating trigger. Further, any substantial debt-funded capex, stretch in working capital intensity or capital withdrawals leading to pressure on the liquidity position will result in pressure on the ratings.

Key rating drivers

Credit strengths

Established track record in manufacturing starch and its derivatives – SIL was established in 1941 by the Mehta family and is at present managed by Mr. Priyam Mehta, along with his son Mr. Varun Mehta and Mr. Vishal Mehta. It has an established track record of more than seven decades and it is one of the leading players in manufacturing starch and its derivatives in India.

Diversified product profile across various end-user industries – SIL's sales mix is broadly divided into four categories based on the applications. This includes 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 the remaining by-products are used for varied purposes in pharmaceutical, cosmetic, paint industries and as a protein basis for animal and poultry feeds. With a diversified product portfolio, the risk of dependence on a single product or single end-user industry remains limited.

Strong and reputed clientele base with track record of repeat business – Over the years, SIL has derived most of its revenue from domestic sales (80%-83%) with exports remain range bound. Its clientele base comprises reputed players across industries like Colgate Palmolive India Limited, Hindustan Unilever Limited, FDC Limited, Zydus Wellness Limited, Arvind Limited, etc. The company enjoys an established relationship with a history of repeat orders.

Credit challenges

Moderation in margins – The company's operating margin declined to 2.91% in Q1 FY2020 from 4.5% in Q1 FY2019 mainly due to an increase in maize prices. Consequently, the net profit margin declined to 0.24% in Q1 FY2020 from 2.3% in Q1 FY2019. The profitability is expected to remain under pressure in Q2 FY2020 as well. The increase in maize prices were because of inadequate rainfall, coupled with pest attack during the crop season FY2018-FY2019 leading to shortage of corn. With lower OPBDITA and higher interest cost (due to higher borrowings), the interest coverage indicator deteriorated to 1.3 times in Q1 FY2020 from 2.3 times in Q1 FY2019.

Profitability susceptible to raw material price fluctuations – Maize prices witnessed volatility over the past few years and maize forms almost 93% of SIL's raw material requirement. Thus, the company's profitability remains exposed to volatility in maize prices as witnessed in Q1 FY2020, wherein the margins declined by 140 bps.

Intense competition in maize processing industry – The maize processing industry faces intense competition from other established players like Gujarat Ambuja Exports Ltd., Sukhjit Starch & Chemicals Ltd, Roquette Riddhi Siddhi Pvt Ltd, etc, and smaller unorganised players. Further, maize being an agriculture-based input, SIL's operations are vulnerable to inherent risks associated with agro-climatic conditions, its availability, harvest and the Government's intervention in terms of declaring the minimum support prices (MSP).

Liquidity position

The company's liquidity position has tightened as reflected by an increase in the working capital utilisation in the current fiscal. Though, the cash flows at present remains sufficient to meet the debt obligations, any further weakness in accruals, due to lower profits, will make the situation fragile. However, comfort can be drawn from the management's efforts towards monetising non-core assets in the current year, to boost the liquidity profile. ICRA will continue to closely monitor the outcome of such developments related to impact on liquidity.

About the company

Incorporated in 1941, SIL is promoted by the Mehta family and is involved in manufacturing starch, its downstream derivatives viz. liquid glucose, dextrose monohydrate, anhydrous dextrose, sorbitol and by-products like gluten, maize oil, etc, which are used in textile, processed foods, pharmaceuticals, chemical, paper and other industries. The manufacturing facility is located at Kathwada, Ahmedabad and is ISO 9001:2008 certified. Equity shares of SIL got listed on BSE Ltd. in October 2017.

SIL has three subsidiaries Sayaji Ingritech LLP (holding 76%), Sayaji Seeds LLP (holding 90%) and Sayaji Corn Products Limited (holding 100%) as on March 31, 2018. SIL also had a joint venture- Sayaji Sethness Limited with Sethness Products Company, USA, as a forward integration, manufacturing liquid caramel colour by using liquid glucose. During July 2018, SIL and its promoters divested stake for USD 3.2 million. Further, SIL has associated concerns namely Sayaji Samruddhi LLP and N.B. Commercial Enterprises Limited involved in real estate and plastic barrels manufacturing, respectively.

In FY2019, the company reported a net profit of Rs. 24.9 crore on an OI of Rs. 621.2 crore, compared to a net profit of Rs. 5.4 crore on an OI of Rs. 579.5 crore in FY2018. Further, SIL reported a net profit of Rs. 0.43 crore on an OI of Rs. 174.94 crore in Q1 FY2020.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	579.5	621.2
PAT (Rs. crore)	5.4	24.9
OPBDIT/ OI (%)	4.42%	4.47%
RoCE (%)	12.3%	22.2%
Total Debt/ TNW (times)	1.99	1.69
Total Debt/ OPBDIT (times)	4.42	4.88
Interest Coverage (times)	2.17	2.42

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About ICRA Limited:

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