November 25, 2019

Sayaji Industries Limited: Update on material event; ratings downgraded to MB+; outlook revised to Stable

Summary of rated instrument

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

Material event

Quarterly Results – Q2 FY2020

Sayaji Industries Limited (SIL) announced its quarterly results of Q2FY2020 on November 14, 2019. The company reported an operating income (OI) of Rs. 138.3 crore, an operating profit (OPBDITA) of Rs. 1.70 crore and a net loss of Rs. 3.9 crore in Q2FY2020, against an OI of Rs. 151.5 crore with OPBDITA of Rs. 8.8 crore and PAT of Rs. 20.3 crore in Q2FY2019.

Impact of the material event

ICRA has revised the medium-term ratings assigned to SIL's Rs. 20.00-crore fixed deposits programme to [ICRA]MB+ (pronounced ICRA M B plus) from [ICRA]MA- (pronounced ICRA M A minus) due to continuous weaker-than-expected performance in Q2 FY2020. The outlook on the medium-term rating is Stable.

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

Rationale

The rating revision takes into account the weakening in SIL's financial profile in H1FY2020, compared to FY2019 as well as earlier expectation, due to a sharp rise in maize prices which the company could not pass to end customers fully. This led to a decline in the operating margin, leading to a net loss and lower-than-expected cash accruals. This in turn weakened the capital structure and led to below-average coverage indicators in H1 FY2020. The rating continues to factor in the stiff competition in the maize processing and derivatives industry, which is marked by the presence of both large organised and unorganised players, and the risk inherent in crop harvests and availability. 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 more than seven decades experience in the starch manufacturing and derivatives business, its diversified product profile and the strong and reputed clientele base with a track record of repeat business.

The Stable outlook on the MB+ rating reflects ICRA's opinion that SIL will continue to benefit from its extensive experience and long track record of operations.

Key rating drivers and their description

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's Mr. Varun Mehta and Mr. Vishal Mehta. It has an established track record of more than seven decades and is one of the leading players in manufacturing starch and its derivatives.

Diversified product profile; presence in 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

Deterioration in financial risk profile –The operating income (OI) declined by 9% to Rs.138.3 crore in Q2FY2020 from Rs. 151.5 crore in Q2FY2019. However, with higher OI in Q1FY2020 vis-à-vis Q1FY2019, OI in H1FY2020 stood at Rs. 315.6 crore vis-à-vis Rs. 297.8 crore in H1FY2019. The company's operating margins declined to 1.23% in Q2FY2020 from 5.81% in Q2FY2019 and 4.16% in Q1FY2020 because of an increase in the raw material cost (maize). Despite, the company's efforts to control other costs, it could not arrest the decline in margins. The decline in the operating margin coupled with an increase in the interest and finance cost (with increase in the debt levels), resulted in net losses of Rs. 3.5 crore (vis-à-vis PAT of Rs. 20.3 crore in Q2FY2019). The total debt increased to Rs. 153.8 crore as on September 30, 2019 from Rs. 122.8 crore as on March 31, 2019, thereby deteriorating the gearing levels to 2.0 times as on September 30, 2019 from 1.7 times as on March 31, 2019. With the increase debt levels and the decline in the operating margin, the coverage indicators turned weak as reflected by interest coverage ratio of 1.1 times, TD/OPBDITA of 8.47 times and NCA/TD of 28% in H1FY2020.

Profitability susceptible to raw material price fluctuations – Maize prices (key raw material) forms almost 93% of SIL's raw material requirement. Thus, the company's profitability remains exposed to adverse volatility in maize prices as witnessed in H1 FY2020, wherein due to increase in maize prices, the raw material cost formed 72.7% of the OI in Q2FY2020 against 64.5% in Q2FY2019, resulting in net loss as the company couldn't pass on the same to the end customers.

Operations exposed to intense competition, agro climatic conditions and Government policies – 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 medium to small players. Further, maize being an agriculturebased 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: Stretched

The company's liquidity position has remained stretched as reflected by increased borrowings in the current fiscal. The company has sizeable debt repayment over near to medium term and the cash accruals may remain inadequate to service the same. Thus, monetization of the non-core assets of the company and promoters support remains critical to support liquidity.

Rating sensitivities

Positive triggers – ICRA could upgrade SIL's ratings if the company demonstrates a turnaround in the operations and significantly improves the profitability, resulting in improved cash-flows. Additionally, better working capital management that leads to an improvement in the overall credit metric and liquidity position of the company would be a credit positive.

Negative triggers – ICRA could upgrade SIL's ratings if the company continues to perform weakly or increase in debt with debt-funded capex, or the working capital borrowings shoots up, resulting in further pressure on the liquidity and weakening of the credit profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financial statement of the issuer.

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. These products 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 had 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. The entity manufactures liquid caramel colour by using liquid glucose. In 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, which are 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 loss of Rs. 3.5 crore on an OI of Rs. 315.6 crore in H1 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
DSCR (times)	1.12	2.00

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating		FY2019	FY2018	FY2017
					25-Nov-2019	19-Aug-2019	31-JOct-2018	20-Jul-2017	2-Jun-2016
1	Fixed Deposits	Medium Term	20.00	19.25*	MB+; (Stable)	MA- (Negative)	MA- (Stable)	MA- (Stable)	MA- (Stable)
2	Fund Based Limits	Long Term	99.40		-	-	[ICRA]BBB- (Stable); withdrawn	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)
3	Non Fun Based Limits	Short Term	4.15		-	-	[ICRA]A3; withdrawn	[ICRA]A3	[ICRA]A3

*As on March 31, 2019

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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposits	NA	NA	NA	20.00	[ICRA]MB+(Stable)

Source: Sayaji Industries Limited

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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.

For more information, visit www.icra.in

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