December 07, 2023

Sahyadri Starch & Industries Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based – Cash Credit	24.00	24.00	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long Term / Short Term – Interchangeable ^	(4.00)	(4.00)	[ICRA]BBB+(Stable)/ [ICRA]A2; upgraded from [ICRA]BBB(Stable)/ [ICRA]A3+
Long Term / Short Term – Unallocated	4.62	4.62	[ICRA]BBB+(Stable)/ [ICRA]A2; upgraded [ICRA]BBB(Stable)/ [ICRA]A3+
Total	**28.62**	**28.62**	

**Instrument details are provided in Annexure-I; ^ sublimit of Cash Credit*

Rationale

The ratings upgrade for Sahyadri Starch & Industries Private Limited (SSIPL) favourably factors in the company's better-than-expected revenue and earnings growth in FY2023 due to healthy demand for corn starch and its derivatives. Since FY2021, SSIPL surpassed the previous all-time high profits for three consecutive years. While the company's earnings were expected to witness moderation in the current fiscal, the company's H1 FY2024 operating margins of 7.0% stood higher than ICRA's earlier estimate. Following the sequential dip in margins due to raw material cost pressures, ICRA expects the company's earnings to improve for the remainder of FY2024, supported by rising realisations and better product spreads[1] in H2 FY2024. Over the medium term, even as spreads moderate to more sustainable levels, favourable demand prospects for corn starch and its derivatives, expectations of healthy volume growth from planned capacity additions, along with cost savings from modification/expansion in captive power generation facilities are likely to keep SSIPL's future earnings more attractive than pre-covid levels. SSIPL has NIL external long-term debt as on September 30, 2023, which along with efficient working capital management, and resulted in comfortable debt protection metrics owing to back-to-back years of earnings growth.

SSIPL proposes to incur a capex of Rs. 40-50 crore in the medium term for the installation of an additional capacity of 750 tonnes per day (TPD) and another ~Rs. 15 crore for setting up additional captive power generation capacity of 2.5 megawatts (MW). The same is likely to be funded through a mix of internal accruals and external debt. However, ICRA expects that SSIPL's leverage and coverage indicators will continue to remain healthy over the near-to-medium term, as the capital deployment plans remain prudent compared to the existing scale of operations. The ratings also take comfort from the experienced promoters and the company's established track record of more than three decades in manufacturing starch and its derivatives, which helped create a strong customer base. The company's customer profile is well-diversified with its top 10 customers contributing 41% and 33% to total sales in FY2023 and H1 FY2024, respectively. The company's product profile consists of several downstream derivatives of starch that find applications in various industries such as textile, processed foods and pharmaceuticals among others, which partly safeguards SSIPL's business from sector-specific slowdown. The ratings also consider the logistical advantages arising from SSIPL's location, which is in proximity to maize-cultivating regions.

The ratings, however, remain constrained by the vulnerability of SSIPL's margins to fluctuations in maize prices. However, ICRA notes that despite the significant increase in maize prices since FY2023, a favourable demand environment aided SSIPL to largely pass on the maize cost increases, as witnessed in the reported operating profit margin maintaining at ~10.0% in FY2023

[1] Spreads indicate the gap between corn starch and maize prices

from 10.6% in FY2022. In H1 FY2024, SSIPL's margins moderated to ~7.0% due to raw material cost pressures, however, the same sustained above the long-period average level (~6% between FY2016 and FY2023). The margins for the current fiscal year are expected to remain at a healthy 7-8% with the improvement in realisations from November 2023 onwards. However, in the medium term, SSIPL's margins remain exposed to the risks inherent in the agro-based industry, such as uncertainties in raw material availability and price fluctuations due to seasonal variations in crop harvest. The ratings are further constrained by the competition from established players as well as smaller manufacturers, leading to a low bargaining power.

The Stable outlook on the long-term rating indicates the favourable operating environment for domestic starch manufacturers, and ICRA's expectations that SSIPL will continue to maintain comfortable liquidity and credit metrics due to its cost-efficient operations and calibrated growth plans.

Key rating drivers and their description

Credit strengths

Better-than-expected earnings owing to healthy demand for corn starch and improvement in cost structure – Notwithstanding the increasing maize prices, SSIPL witnessed a surge in earnings since FY2021, exceeding its pre-Covid earning levels, largely on account of healthy demand growth for corn starch. Global corn starch production and sales have witnessed a healthy uptick since the pandemic, driven by heightened interest in ready-to-cook products and components essential for in-home cooking (as a clean-label and organic product). Additionally, there has been a gradual rise in industrial demand following the easing of lockdown restrictions, notably from sectors such as paper, pharma, and textiles. With a favourable demand outlook for maize and other derivative products, SSIPL reported operating profits of Rs. 43.8 crore in FY2023 (against Rs. 37.3 crore in FY2022). While the company's earnings were expected to witness moderation in the current fiscal, the company's H1 FY2024 operating margins of 7.0% stood higher than ICRA's earlier estimate (5.6% for FY2024 full year). Following the sequential dip in margins due to raw material cost pressures, ICRA expects the company's earnings to improve for the remainder of FY2024, supported by rising realisations and better product spreads in H2 FY2024. Additionally, in FY2024, SSIPL completed the conversion of the 3.0 MW steam power plant from noncondensing to condensing mechanism in which the steam used for processing the finished goods gets passed by the turbine to generate power which reduces the requirement of steam generation through use of coal to produce power. This, in addition to the increase in capacity of its biogas plant to 1.56 MW from 1.2 MW in November 2023, will reduce the requirement of grid power and leading to structural cost savings. Over the medium term, even as spreads moderate to more sustainable levels, favourable demand prospects, expectations of healthy volume growth from planned capacity additions, along with cost savings from modification/expansion in captive power generation facilities are likely to keep earnings more attractive compared to pre-Covid levels.

Healthy financial risk profile – SSIPL's financial profile is characterised by NIL external term debt as of September 30, 2023, which leads to low leverage and healthy debt coverage indicators. In H1 FY2024, interest coverage for the company stood at 12.2 times which is similar to the coverage levels for FY2022 and FY2023. The company is underway with the enhancement of its processing capacity from 500 TPD as on date to 750 TPD over the next 2 years, which would likely be funded through a mix of internal accruals and term debt. Despite the same, the company's leverage and coverage indicators are expected to remain at healthy levels with total debt to OPBDITA remaining below 1.5 times and interest coverage remaining above 9 times.

Established track record of manufacturing starch and its derivatives for more than three decades safeguard SSIPL's business from sector-specific slowdown – The experienced management has aided SSIPL towards the expansion of its customer base over the years. SSIPL has an established track record of manufacturing maize starch, liquid glucose and other maize derivatives such as high maltose corn syrups, maltodextrin and chemical starch, among others. Liquid glucose and maize starch remain SSIPL's key products, accounting for ~69% of its sales in H1 FY2024. Maize starch finds application in the textile, paper and adhesive industries, while liquid glucose is mainly used in confectionaries, pharmaceutical and leather industries. Value-added products such as maltodextrin are used as a flavouring and bodying agent in the food industry. In addition, byproducts like maize bran are used as cattle feed, while maize oil is used in the pharmaceutical, cosmetic, paint and rubber industries. Its diversified end-user sectors partly safeguard SSIPL's business from sector-specific slowdowns.

Reputed and diversified clientele mitigates counterparty credit risks and present growth opportunities – SSIPL's customer profile is characterised by reputed players from diversified industries like confectionery, packaged food and FMCG, among others, which partly mitigates the counterparty risks as well as risks associated with a sharp earnings volatility arising from lower demand from any particular sector. The client profile is diversified, with the top 10 customers contributing ~33% to the total sales in H1 FY2024. The company caters to reputed customers such as Perfetti Vanmelle India Pvt Ltd., Marico Ltd., ITC Ltd. and Cadbury India Ltd., among other players. SSIPL is expected to get new business growth opportunities with the steadily expanding market presence of the said established customers.

Strategic location in proximity to maize-cultivating regions leading to cost savings – Maize is the primary raw material required by the company. SSIPL procures maize from various traders, suppliers and agricultural product market committees (APMCs) in the domestic market. Its manufacturing unit is located at Sangli in Maharashtra, which lies in proximity to India's key maize cultivating regions, including Karnataka, ensuring an uninterrupted supply of raw materials and savings in inbound freight costs.

Credit challenges

Risks inherent to agro-based industry – SSIPL's margins remain vulnerable to the risks inherent in the agro-based industry, such as raw material availability and crop harvest. The company remains largely dependent on maize as its key raw material. As a result, any disruption in the availability of maize or any adverse fluctuation in maize prices exposes the company to volatile profit margins.

Competition from other established players as well as other small manufacturers – The company operates in an intensely competitive industry, characterised by the presence of many established players such as Gujarat Ambuja Exports Limited, Tirupati Starch & Chemicals Limited and other small-scale manufacturers, distributors and traders. Stiff competition constrains its profit margins.

Low bargaining power with larger customers – Many of SSIPL's customers are large consumer-facing companies and are significantly bigger than SSIPL. This, along with stiff competition from other established players limits its pricing flexibility and bargaining power with customers. SSIPL ventures into volume contracts with most of its clients. The tenure of these contracts varies from one month to one year. Perfetti Vanmelle India Pvt. Ltd. has remained SSIPL's major customer with sales to Perfetti accounting for ~5% of the company's total revenues in FY2023. SSIPL enters into a rate contract with Perfetti, wherein prices remain fixed for three months, putting pressure on the profit margins in case of rising input costs during this period.

Liquidity position: Adequate

Healthy fund flow from operations and moderate working capital requirements resulted in positive retained cash flow for SSIPL since FY2018. ICRA expects the company to report positive retained cash flows as well as free cash flow in FY2024, which will keep its liquidity position at an adequate level. The average utilisation of cash credit facilities during the 12-month period ending September 2023, stood at 5% of the sanctioned limits, providing a healthy liquidity buffer. In addition, SSIPL has NIL external debt loan repayment obligation in the current fiscal. Besides, the company maintained an unencumbered cash balance of ~Rs. 9 crore as on September 30, 2023, which further supports its liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company exhibits a significant growth in the top line coupled with an improvement in the operating profitability.

Negative factors – The ratings could be downgraded if the company records a considerable decline in revenues and profit margins. Specific credit metric, which could lead to a downward rating action, includes an interest coverage below 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone financial statement of the issuer

About the company

Sahyadri Starch and Industries Private Limited manufactures maize starch, liquid glucose and derivatives from maize. SSIPL was established in 1982. It is promoted by the Majithia and the Thakkar families, who are related. The company's manufacturing facility at Sangli has a total installed annual production capacity of 1,80,000 metric tonnes of starch and its derivatives. The products manufactured by the company find applications across various industries such as confectionary, packaged food, FMCG etc.

SSIPL is a part of the Hermes Group owing to the Thakkar's family's stake in SSIPL. The Group has various business interests in real estate, travel and cargo, exports, healthcare, restaurants and lifestyle retail etc.

Key financial indicators (audited)

SSIPL	FY2022	FY2023	H1 FY2024*
Operating income	372.64	442.98	221.41
PAT	22.16	26.43	9.89
OPBDIT/OI	10.01%	9.88%	7.04%
PAT/OI	5.95%	5.97%	4.47%
Total outside liabilities/Tangible net worth (times)	1.29	0.59	0.59
Total debt/OPBDIT (times)	1.31	0.55	0.85
Interest coverage (times)	12.20	13.12	12.24

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Dec 7, 2023	Nov 28, 2022	Aug 05, 2021	Apr 30, 2020
1	**Long Term – Fund Based – Cash Credit**	Long term	24.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)
2	**Long Term / Short Term – Interchangeable ^**	Long term/ Short term	(4.00)	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BB+ (Stable) / [ICRA]A4+
3	**Long Term / Short Term – Unallocated**	Long term/ Short term	4.62	-	[ICRA]BBB+ (Stable) / [ICRA]A2	[ICRA]BBB (Stable) / [ICRA]A3+	[ICRA]BBB- (Stable) / [ICRA]A3	[ICRA]BB+ (Stable) / [ICRA]A4+

^ sublimit of Cash Credit

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based – Cash Credit	Simple
Long Term / Short Term – Interchangeable ^	Very Simple
Long Term / Short Term – Unallocated	Not Applicable

^ sublimit of Cash Credit

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term – Fund Based – Cash Credit**	NA	NA	NA	24.00	[ICRA]BBB+ (Stable)
NA	**Long Term / Short Term – Interchangeable ^**	NA	NA	NA	(4.00)	[ICRA]BBB+ (Stable) / [ICRA]A2
NA	**Long Term / Short Term – Unallocated**	NA	NA	NA	4.62	[ICRA]BBB+ (Stable) / [ICRA]A2

Source: Company; ^ *sublimit of Cash Credit*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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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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