

Sayaji Industries Limited

October 31, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limits	99.40	0.0	[ICRA]BBB-(Stable); withdrawn
Non-fund based limits	4.15	0.0	[ICRA]A3; withdrawn
Medium Term – Fixed Deposit Programme	20.00	20.00	MA-(Stable); reaffirmed
Total	123.55	20.00	

*Instrument details are provided in Annexure-1;

Rating action

ICRA has withdrawn the long-term/short-term rating of [ICRA]BBB-(Stable)/A3 assigned to the Rs. 103.55-crore fund-based and non-fund based bank limits of Sayaji Industries Limited (SIL). ICRA has reaffirmed the medium-term rating of MA- (pronounced ICRA M A minus) on the Rs. 20.00-crore public deposit programme of SIL. The outlook on the medium-term rating is Stable.

Rationale

The long-term and short-term ratings assigned to bank limits of Sayaji Industries Limited have been withdrawn at the request of the company, based on the no objection certificate and no due certificate provided by its bankers.

The medium-term rating reaffirmation continues to factor in the company's established track record of 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. The rating also takes into account the consistent growth in operating income during last three fiscals and low working capital intensity of the business.

The rating is, however, constrained by modest operating margins which remains vulnerable to movement in maize prices being key raw material, high gearing levels and moderate debt coverage metrics. The rating also factors in the highly competitive nature of the maize processing and derivatives industry marked by the presence of both large organised and un-organised players and the risk inherent with respect to availability of maize (key raw material) and its crop harvests. ICRA also notes that SIL is carrying out a debt-funded capex to increase its capacity for downstream derivatives which exposes it to project implementation and subsequent stabilisation risk. Hence, its ability to complete the capex within stipulated timelines, budgeted cost and generate adequate returns remains critical from the credit perspective. Further, the rating also considers 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 companies.

Outlook: Stable

Going forward, ICRA expects the company's revenue to witness moderate growth supported by a stable demand outlook and expected volume off-take from existing customers. The outlook may be revised to Positive if substantial growth in revenues and profitability leads to higher-than-expected cash accruals, infusion of equity leading to an improvement in its financial flexibility. The outlook may be revised to Negative, if SIL witnessed cost over-runs in the ongoing capex, leading to any higher than expected debt funding, which leverages its capital structure. Lower than anticipated operating income and profitability and hence cash accruals, or stress on working capital cycle, which weakens the liquidity, will also be a negative rating trigger.

Key rating drivers

Credit strengths

Established track record in manufacturing starch and its derivatives - SIL was established in 1941 by Mehta family and is presently managed by Mr. Priyam Mehta along with his son Mr. Varun Mehta and Mr. Vishal Mehta. SIL 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 with various end-use industries – The sales mix for SIL is broadly divided 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 FY2018, SIL recorded net sales of ~ Rs. 576 crore, of which ~40% was through the processed foods segment, ~37% through starch, ~23% through by-products and the remaining 9% from the drugs and pharmaceutical manufacturing. Hence, with diversified product portfolio, risk of dependence on 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 (83% of sales in FY2018) with exports remain range bound. The clientele base for SIL remains reputed players in across industries like Colgate Palmolive India Limited, Hindustan Unilever Limited, FDC Limited, Zydus Wellness Limited, Arvind Limited etc and company enjoys an established relationship with history of repeat orders.

Credit challenges

Average financial risk profile – The operating income of the company has been growing consistently over last three fiscals and it grew by 9% to Rs. 579.5 crore in FY2018 from Rs. 530.9 crore in FY2017 due to stable demand and increase in sales volume. However, the operating margins continues to remain moderate at 4.4% in FY2018, though has improved from 3.8% in FY2017. Further, the total debt for the company has increased over the years with periodical capex and increasing working capital requirement. The total debt stands at Rs. ~113 crore at FY2018-end (increased from Rs. 106 crore in FY2017-end) leading to high gearing at 2.0 times as on FY2018-end. With moderate profitability and high reliance on debt, the debt coverage indicators for the company remained average, with interest coverage of 2.2 times TD/OBITDA of 4.4 times and NCA/Debt at 12% during FY2018.

Profitability to remain susceptible to raw-material price fluctuations - Maize prices have witnessed volatility over the past few years and with maize forming almost 93% of the raw material requirement for SIL. Thus, company's profitability remain exposed to volatility in maize prices as has been witnessed in FY2017 wherein the margins corrected to 3.8% compared to 4.4% in FY2016 and 5.5% in FY2015. Though the capex towards enhancing capacity for downstream derivatives is expected to reduce this risk to some extent.

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

Risk associated with on-going debt funded capital expenditure - SIL is undertaking capital expenditure to increase capacity of its value-added downstream derivatives at a cost of around Rs.50 crore. This is to be funded through term loan of Rs.35 crore and remaining through the mix of internal accruals and proceeds from stake sale in Sayaji Sethness Ltd. (SSL) which would impact the capital structure in the near to medium term. However, SIL received funds from stake sale in SSL to its JV partner Sethness Products Company, USA for the consideration of USD 3.20 million in July 2018 which would support the liquidity position to certain extent. The said capex will benefit the company in terms of higher scale and profitability in future, however, stabilisation of operations and scaling up as per the expected levels remains to be seen.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[ICRA Policy on Withdrawal and Suspension of Credit Rating](#)

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. 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 engaged in real estate and plastic barrels manufacturing respectively.

In FY2018, the company reported a net profit of Rs. 5.4 crore on an operating income of Rs. 579.5 crore, compared to a net profit of Rs. 3.9 crore on an operating income of Rs. 530.9 crore in FY2017. Further, SIL reported a net profit of Rs. 3.3 crore on an operating income of Rs. 146.3 crore during Q1 FY2019(provisional financials).

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	530.9	579.5
PAT (Rs. crore)	3.9	5.4
OPBDIT/ OI (%)	3.8%	4.4%
RoCE (%)	10.5%	12.3%
Total Debt/ TNW (times)	2.0	2.0
Total Debt/ OPBDIT (times)	5.2	4.4
Interest Coverage (times)	1.8	2.2

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October 2018	Date & Rating in FY2018 July 2017	Date & Rating in FY2017 June 2016	Date & Rating in FY2016 April 2015
1 Cash credit	Long Term	40.00	-	[ICRA]BBB-(Stable); withdrawn	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB (Stable)
2 Term loans	Long Term	13.00	-	[ICRA]BBB-(Stable); withdrawn	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	[ICRA] BBB (Stable)
3 Purchase Bill Discounting	Long Term	40.00	-	[ICRA]BBB-(Stable); withdrawn	[ICRA] BBB- (Stable)	-	-
4 Purchase Bill Discounting (Proposed)	Long Term	2.00	-	[ICRA]BBB-(Stable); withdrawn	[ICRA] BBB- (Stable)	-	-
5 OD-IP	Long Term	4.40	-	[ICRA]BBB-(Stable); withdrawn	[ICRA] BBB- (Stable)	[ICRA] BBB- (Stable)	-
6 Bank Guarantee	Short term	2.60	-	[ICRA]A3; withdrawn	[ICRA] A3	[ICRA] A3	[ICRA] A3+
7 Letter of Credit	Short term	1.55	-	[ICRA]A3; withdrawn	[ICRA] A3	[ICRA] A3	[ICRA] A3+
8 Fixed Deposit Programme	Medium Term	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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loans	-	-	February 2020	13.00	[ICRA]BBB-(Stable); withdrawn
NA	Cash Credit	-	-	-	40.00	[ICRA]BBB-(Stable); withdrawn
NA	Purchase Bill Discounting	-	-	-	40.00	[ICRA]BBB-(Stable); withdrawn
NA	Purchase Bill Discounting (Proposed)	-	-	-	2.00	[ICRA]BBB-(Stable); withdrawn
NA	OD-IP	-	-	-	4.40	[ICRA]BBB-(Stable); withdrawn
NA	Bank Guarantee	-	-	-	2.60	[ICRA]A3; withdrawn
NA	Letter of Credit	-	-	-	1.55	[ICRA]A3; withdrawn
NA	Medium Term – Fixed Deposit Programme	-	-	-	20.00	MA-(Stable)

Source: Sayaji Industries Limited

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Mayank Agrawal

+91 79 4027 1514

mayank.agrawal@icraindia.com

Ravish Mehta

+91 79 4027 1522

ravish.mehta@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 6606 9999

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