GUJARAT AMBUJA EXPORTS LIMITED

GAEL

- Started in 1991 by Mr. late Vijaykumar Gupta in Kadi, Gujarat.| Chairman and MD– Manish Gupta
- Started with oil and flour mill and now expanded its aura in Agro-processing, Corn Starch Derivatives, Soya Derivatives, Feed Ingredients, Cotton Yarn and Edible Oils
- Promoter holding of 64% (no pledge)
- Key public shareholders:
  Manish Gupta 32.78% | Sulochna Gupta 21.78%
  Shilpa Gupta 6.18% | Massachusetts institute of Technology 1.52% | Mohit Gupta 1.95%
- Outstanding shares: 22.93cr shares | FV: Rs 1
- M Cap: ₹4,435 crs. | CMP: ₹193 | BV: ₹ 81.1
- Listed on NSE & BSE | BSE Code: 524226

A. Key Ratios

Kay Ratio	Mar-18	Mar-19	Mar-20	Mar-21
Debtor Days	24.9	19.8	14.8	17.5
Inventory Turnover	4.6	8.0	6.4	6.5
Fixed Assets Turnover	4.4	5.3	4.8	6.4
Debt/Equity	0.6	0.2	0.1	0.1
Return on Equity	18%	18%	11%	20%
Return on Capital Employed	15%	20%	13%	25%

B. Balance Sheet

Particulars	Mar-18	Mar-19	Mar-20	Mar-21
Equity Share Capital	22.93	22.93	22.93	22.93
Reserve	999.42	1185.31	1303.53	1642.61
Borrowings	646.87	217.26	160.08	163.47
Other Liabilities	225.56	289.66	249.82	344.9
Total	**1894.78**	**1715.16**	**1736.36**	**2173.91**
Net Block	771.75	753.02	787.2	730.74
Capital work in Progress	54.3	60.73	12.19	106.31
Investments	42.62	52.44	22.13	191.6
Other Assets	1026.11	848.97	914.84	1145.26
Total	**1894.78**	**1715.16**	**1736.36**	**2173.91**
Working Capital	800.55	559.31	665.02	800.36
Debtors	229.31	217.96	154.24	225.38
Inventory	723.73	501.64	598.71	723.41

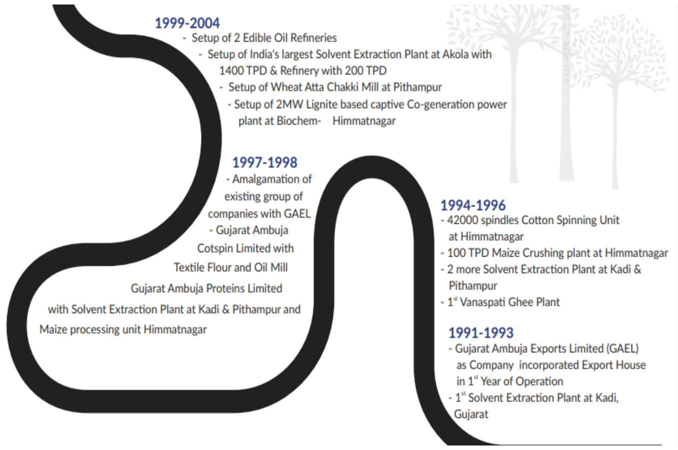
C. Financial Statement

Particulars (₹ Crs)	Mar-19	Mar-20	Mar-21
Sales	4021	3817	4705
Expenses	3647	3527	4171
Material Cost (% of Sales)	73%	78%	75%
Power and Fuel	5%	5%	4%
Other Mfr. Exp	4%	4%	3%
Employee Cost	3%	3%	3%
Selling and Admin Cost	4%	3%	4%
Gross Profit	1099	855	1161
Gross Profit Margin	27%	22%	25%
Operating Profit	374	289	535
Operating Profit Margin	9%	8%	11%
Other Income	10	2	27
Other Income as % of Sales	0%	0%	1%
Depreciation	96	101	103
Interest	18.82	9.36	5.77
Interest Coverage(Times)	15	20	79
Profit before tax (PBT)	270	181	452
% Growth YOY	16%	-33%	150%
PBT Margin	7%	5%	10%
Tax	71	36	114
Tax Rate	26%	20%	25%
Net profit	198	146	338
% Growth YOY	10%	-26%	132%
Net Profit Margin	5%	4%	7%
EPS	8.6	6.4	14.7
% Growth YOY	10%	-26%	132%
Price to earning	12.7	8.2	8.7
Price	109.85	52.38	127.85
Dividend Payout	6%	8%	4%
Market Cap	2519	1201	2932
Retained Earnings	186.69	134.38	324.38

D. Segmental Margin

Particulars	9MFY22	FY21	FY20	FY19	FY18
Maize Processing	1851	1958	1971	1871	1350
Agro Processing	1376	2578	1667	1901	1760
Cotton Yarn	180	162	169	240	258
Renewables	7	7	10	10	9
Total	**3415**	**4705**	**3817**	**4022**	**3377**
Assets					
Maize Processing	1459	1206	1019	971	1042
Agro Processing	376	543	447	475	580
Cotton Yarn	85	89	96	158	176
Renewables	20	22	24	26	27
Total	**1940**	**1860**	**1586**	**1630**	**1825**
Liabilities					
Maize Processing	250	121	97	127	138
Agro Processing	59	86	50	71	49
Cotton Yarn	36	31	26	32	50
Renewables	0.1	0.1	0.1	0.1	0.1
Total	**345**	**238**	**173**	**230**	**237**

E. Milestones



F. Product Categories

G. Starch Derivatives

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Starch Derivatives -

High Value-add Products

Products	Description	Function	Application
Sorbitol 70% Solution	A Polyol; Sugar alcohol	Bulk Sweetener	Toothpaste, sugar-free candies, ice-cream, jam, pharma, adhesives, tobacco etc.
Malto Dextrin	Complex Carbohydrate	Bulking Agent	Infant food, enteral products, dry beverage mixes etc.
Dextrose Monohydrate	Crystallized D-glucose	Sweetener	Bakery, dairy, brewing, adhesives, Building material as humectant etc.
Liquid Glucose	Corn Syrup/Glucose	Sweetener	Cough syrup, vitamin tonic, tobacco, tablet coating etc.
High Maltose Syrup	Gluten-free Carbohydrate	Sweetener & Preservative	Hard candy, frozen dessert, brewing etc.
Dextrose Anhydrous	Simple Carbohydrate	Sweetener	In pharma for antibiotics, intravenous fluids, glucose injections, rehydration drip lines etc. Industrial applications like enzymes, amino acids etc., Chocolates & Dairy products.

H. Marquee Clients

GAEL is top supplier to all blue-chip FMCG & Pharma Companies

Few Points to Note

- These Ingredients constitute a tiny proportion of the overall product cost portfolio, however critical in determining quality implying a cost of failure be high
- Approval of the new vendor takes 2-3 years.
- Diversify client base, top 10 contributes 30% of the revenues.

I. Secret Sauce to Success

What does it take to succeed in this industry?

Multi-location plants: It is difficult to have efficient operations from a single location plant. GAEL has three plants near major corn producing regions which helps it save on logistics costs and directly deal with farmers. This also ensures proximity to customers and have shorter lead times. It is critical to be fully integrated with products across value chain. Finally being capital efficient while adding capacities also matters; GAEL added its latest capacity during down cycle at 50% cost of what Cargill invested in its last project of similar size.

Procurement & Inventory Management: The key raw material is maize which being an agri commodity has lot of variables like cropped area, monsoon, MSPs etc. affecting the prices every season. Maize processors who can plan and buy inventory for entire year at the right time and has large scale warehousing capacity enjoy lower costs vis-à-vis competitors. GAEL is able to procure corn at 50 paise to Re 1 cheaper than competitors which is a good 4-7% advantage on typical corn procurement cost of Rs 12-16 per kg. (MSP is Rs 14.25 per kg)

Financial muscle to be able to do **a.** & **b.** without resorting to debt. The nature of industry is such that one bad cycle can wipe out leveraged players which keeps happening to GAEL's competitors and also seen in similar business like Basmati Rice. GAEL seems to be

J. Game Changer Product

New Product Launch: High Fructose Corn Syrup (HFCS)

High Fructose Corn Syrup (HFCS), a starch derivative, is a commonly used sweetener (suga substitute) in aerated drinks.

China started substituting sugar with HFCS in 2004 and today bulk of the drinks including Coke & Pepsi are sweetened with HFCS, which costs a third of sugar. From zero, the consumption today is a staggering 4.2+ million tons per annum.

Similarly, corn-based sweeteners account for nearly half of the sweetener market in the U: where consumption of HFCS is somewhere close to nine million tons per annum.

India currently does not consume any HFCS; sugar continues to be the primary sweetener.

At current sugar price of Rs 37-38 per kg, if it is substituted with HFCS there is a scope to save as much as 20-25% cost, which is substantial as sugar is the largest cost component ii aerated drinks. As long as sugar prices are above Rs 30 per kg, HFCS would continue to make economic sense.

Further it takes 22 tons of water to produce one ton of sugar whereas it is less than 2 tons in case of HFCS. Sooner than later, choices would have to be reworked if society wants to avoid the water crisis.

Per capita consumption of starch globally is 6.1 kg whereas it is 1.5 kg in India.

K. Revenue Segmentation

L. Plant Location with Capacity

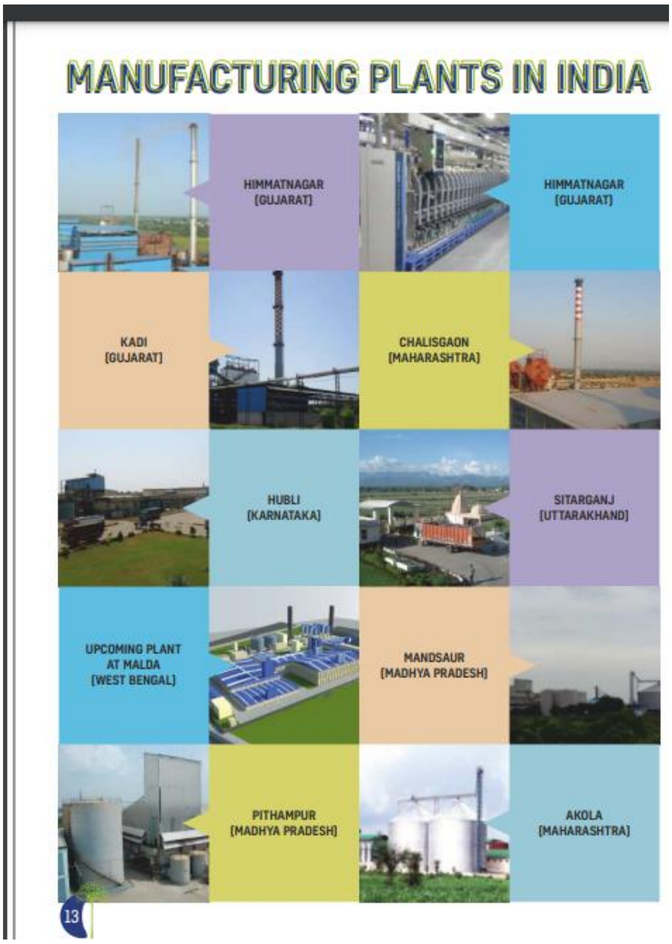
PLANT LOCATION WITH CAPACITY

Plant	Installed Capacity (MT/Day)
MAIZE PROCESSING	
HIMMATNAGAR	500
UTTARANCHAL	750
HUBLI	750
CHALISGAON	1000
TOTAL	**3000**
OTHER AGRO PROCESSING	
SOLVENT	
KADI	1500
AKOLA	1500
MANDSAUR	1000
PITHAMPUR	600
TOTAL	**4600**
REFINERY	
KADI	650
AKOLA	250
MANDSAUR	200
PITHAMPUR	100
TOTAL	**1200**
YARN PROCESSING	**SPINDLES**
HIMMATNAGAR	66000

M. Capacity Expansion

Malda Plant (west Bengal)

- It is the single largest plant in India having a capacity of 1250 TPD maize grinding
- 250 TPD expansion at sitarganj, Capex of 400-500 crores (exp. on internal accruals)
- The Company plans to start commissioning anytime by the first half of the year 2022
- Doubling the capacity for polyol which will be 600 TPD
- 100 TPD HFCS plant at chalisgadh (Waiting for FSSAI approvals)
- 5MW power plant for captive use.



N. Segmental Revenue

Seg. Revenue %	9MFY22	FY21	FY20	FY19	FY18	FY17
Total Revenue	3414.92	4705.3	3816.59	4021.44	3376.63	3381.87
Maize Processing Segment	54%	42%	52%	47%	40%	39%
Agro Processing Segment	40%	55%	44%	47%	52%	55%
Cotton Yarn Segment	5%	3%	4%	6%	8%	6%
Renewable Segment	0%	0%	0%	0%	0%	0%

- Revenue is increasing on a pace scale while the highest contributor to the revenue profile is the maize processing unit
- The business has jumped 40% from FY17 revenue and agro is also been doing well
- Positive sign- Revenue from cotton yarn is been decreasing and management have a look at it and might close the business soon

O. Segmental EBIT contribution

EBIT Margin	9MFY22	FY21	FY20	FY19	FY18	FY17
	473	515	232	325	288	245
Maize Processing Segment	76%	67%	73%	78%	56%	61%
Agro Processing Segment	22%	32%	30%	22%	45%	33%
Cotton Yarn Segment	0%	0%	-6%	-2%	-3%	3%
Renewable Segment	1%	1%	3%	2%	2%	3%
Total	100%	100%	100%	100%	100%	100%

P. Segmental ROCE

Segmental ROCE %	9MFY22	FY21	FY20	FY19	FY18	FY17
Maize Processing Segment	30%	32%	18%	30%	18%	20%
Agro Processing Segment	33%	36%	17%	18%	24%	16%
Cotton Yarn Segment	4%	1%	-19%	-6%	-6%	5%
Renewable Segment	21%	16%	25%	27%	20%	27%

- The maize Processing segment & Agro-processing segment has shown an improvement in ROCE, while the cotton yarn is unable to beat the cost of capital
- Renewables is a small portion of revenue, ROCE doesn't much affect by this segment
- Most of the power generation in renewables are used for captive use.

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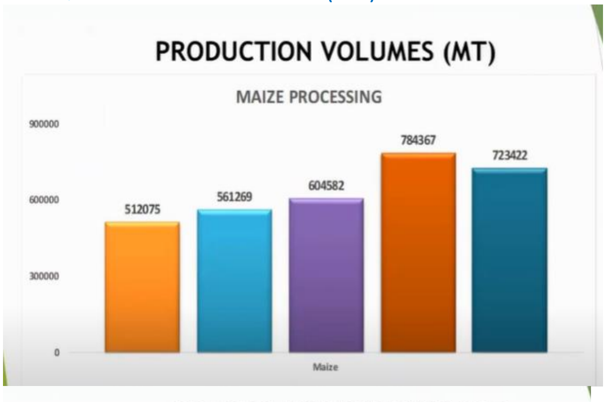
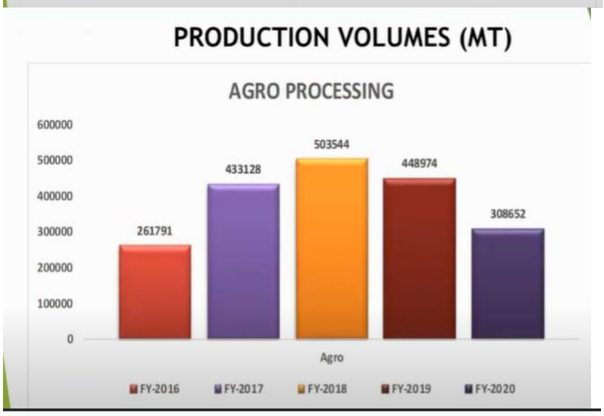
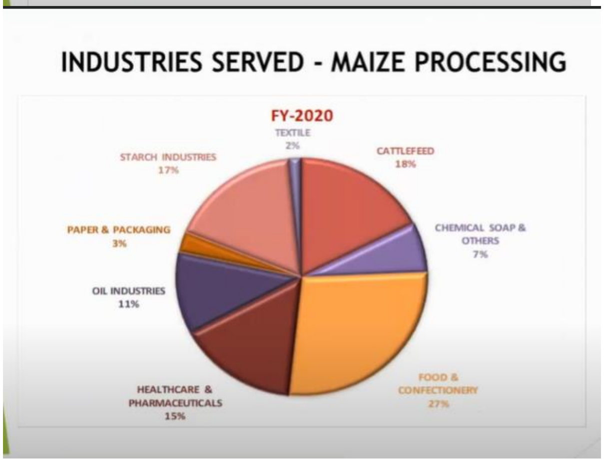
Q. Production Volumes (MT)







Points to consider

- Expecting Capacity utilization is 80-85%
- Post expansion of the West Bengal plant the revenue is expected to grow at 600 crores which make an asset turn of ~0.5
- Starch products are 60% of total revenue and 40% from value-added products
- The company pays suppliers in cash, as they can avail CD
- The largest manufacturer of sorbitol, Molto

R. Competitors Strength and Position

Name of the company	Installed cap. (tpd)	Key Products	Location of plants	Expansion plans	Comments
Roquette India Pvt Ltd (formerly Ridhi Siddhi)	2,550	Starch, Liquid Glucose, Sorbitol, Dextrose Anhydrous, Dextrose Monohydrate, Malto Dextrin	Gujarat, Uttrakhand, Karnatka	Added 220 tpd in FY18	Used to be largest player in the industry before GAEL over took them. Post takeover by Roquette group of France, the company seems to be facing issues. They reported EBTIDA margins losses in FY17, FY18 and FY19 as well.
Sukhjit Starch	1,100	Starch, Liquid Glucose, Dextrose Monohydrate, Malto Dextrin	Punjab, Himachal Pradesh, Andhra Pradesh, West Bengal	Adding 600 tpd plant at Punjab (green field)	Despite Sukhjit being a 75 year old company, GAEL is now more than twice the size of Sukhjit. The company is also adding capacity now and further plans to reach 2,500 tpd capacity by 2021 (looking at new regions for expansion)
Gulshan Polyols	300	Starch, Liquid Glucose, Sorbitol, Dextrose Monohydrate, Malto Dextrin	Gujarat	-	Gulshan is a diversified company with starch and its derivatives contributing around 50% of its revenues. Apart from maize processing, its present in segments like calcium carbonate and precipitate calcium carbonate for paper plants

History not to be ignored.

- Cotton business ROCE is always been below the cost of capital and management is thinking and evaluating how it can be a turnaround
- The initial investment was 200 crores and the last capital was deployed was 50 crores in 2012
- Agro Business constitutes of Edible oil and Soya bean crops
- The last expansion in the agro sector was in 2012, currently, they have 4500 TPD and no plan for expansion in this segment
- The total invested to reach 4500 TPD capacity is 150 crores.

Corporate governance

- Manish Gupta (MD & chairman) has drawn a commission of 48 crores in FY21 (just a concern)
- Overall corporate governance looks good.

Investment Rationale

- HFCS can be a game-changer, as India consumption of HFCS is almost zero
- Low debt business with sustainable revenue growth in last 10 years. I.e. 10% CAGR
- Maize business is making a higher contribution to revenue and EBIT margins
- Higher EBIT margin In Maize business, so increasing focus can increase operating leverage can increase PAT without much increase in revenue
- Few moats Like approvals needed, few people in competition due to bankruptcies issues and heavy load of debt
- Promoter has the skin in the game, knowledgeable (about the industry) and competent

Risks

- Raw material prices get fluctuate so that might erode the margins QoQ (less stability in margins)
- One-man show (Manish Gupta) any uncertainty can lead to a drawdown in prices (As we have seen in AEGIS)
- Currency risk due to exports (Minimal risk)
- Govt. Regulations (Minimal risk)

R. Outlook

- Stock is trading at 10 PE while if we check on 10 yr historical basis it was trading at 10 but as the business is transforming and focusing on maize derivatives, it might change the perception and can be re-rated to 15-18 PE
- ROE and ROCE is decent and building above the cost of capital with low debt
- Debtors days and creditor days seems low, a major chunk is been stuck in inventory which is expected in a commodity kind of business
- The new capex of 1250 TPD can bring 600 crores of revenue but need to be checked if the plant is commissioned or will be incoming qtrs