October 28, 2024

Haryana Seeds Development Corporation Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based - Cash credit	75.00	75.00	[ICRA]BB+ (Stable) reaffirmed
Total	**75.00**	**75.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation takes into account the established track record of Haryana Seeds Development Corporation Limited (HSDCL) in Haryana's certified seeds industry. The rating also notes its strategic importance as a nodal agency for supplying cost-effective seeds in Haryana as well as its highly integrated operations with the cost of production, price determination and subsidy disbursements for certified and traded seeds being regulated by the agricultural department of the Government of Haryana (GoH). The rating also positively factors in the strong distribution network of 79 sales counters across Haryana, supported by six seed processing plants and warehousing centres.

The rating, however, remains constrained by the low realisation on seeds due to the state-regulated subsidised prices. HSDCL, being a nodal agency for supplying cost-effective seeds, acts as the GoH's price regulator in the certified seeds industry. To cover the cost of production and processing, the entity receives subsidy from the GoH and is highly dependent on the timely release of the subsidies to maintain its liquidity profile. The company's revenues are also dependent on the agro-climatic conditions as it affects the output of crops and, thus, the availability of seeds. ICRA also considers HSDCL's concentrated product portfolio, wherein wheat seeds account for more than 80% of the turnover.

Earlier, ICRA had considered implicit support from the GoH while evaluating the credit profile of the company. However, given the lack of clarity, ICRA has not considered the implicit support from the GoH in evaluating the credit profile of the company. However, the rating remains unchanged as previously too the rating did not encompass any uplift owing to the envisaged parentage of the GoH.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that HSDCL will continue to benefit from its position as a nodal agency for supplying seeds in Haryana , which is a major agrarian state of the country. The subsidy support from the GoH for both own seeds and traded seeds will continue to favour the credit profile of the company.

Key rating drivers and their description

Credit strengths

Leading producer and distributor of certified wheat seeds in Haryana - Established in 1974, the company has a long track record as one of the market leaders in Haryana's certified seeds industry. It has a ~17% market share in the supply of certified wheat seeds in Haryana.

Nodal agency for supplying cost-effective seeds in Haryana - The company acts as the GoH's price regulator for certified seeds because it provides seeds to farmers at highly subsidised rates. As a result, the company is of strategic importance to the GoH and receives support from the state in the form of capital grants and subsidies.

Strong sales network - HSDCL has a strong sales network. It has 79 sales counters up to the tehsil level across Haryana, supported by six seed processing plants and warehousing centres.

Credit challenges

Exposure to agro-climatic risk - HSDCL's scale of operations is contingent upon the monsoon and other agro-climatic conditions necessary to cultivate various crops. Any substantial fluctuation such as heavy rainfall/heat waves/drought in the key production centres or sales markets has a considerable impact on the quality, availability and pricing of seeds. HSDCL is also exposed to inventory risks as it has to maintain a sizeable stock of various seed varieties to meet the demand on time. Moreover, given the seasonal nature of its business, HSDCL's working capital requirements vary during the year and are in line with the sowing pattern of crops (majorly wheat). The peak working capital requirement is between April and September.

Modest profit margins owing to state regulated seed prices – HSDCL's operating income had remained subdued in FY2022 and FY2023 because of a moderation in the sale of seeds. The revenue in FY2023 was Rs. 88.7 crore (provisional) against Rs. 92.7 crore in FY2022. However, the revenue is expected to witness healthy growth in FY2024 with a sharp rise in the sale of processed as well as traded seeds. As the company sells its wheat seeds at highly subsidised rates, its profitability is supported by the share of traded seeds (carrying margins ranging from 3% to 10%) and other seeds. However, the operating margins had remained subdued at 2.1% in FY2023 (prov) against 2.82% in FY2022.

High dependence on timely release of subsidies - The company relies on timely support in the form of subsidies from the GoH to support its liquidity profile. The working capital utilisation level increases if there are delays in receiving the subsidies, resulting in higher interest costs.

Liquidity position: Adequate

The liquidity position of the company remains adequate, supported by a lien-free fixed deposit of Rs. 14 crore as on March 31, 2024 (prov) and unutilised working capital facilities as on March 31, 2024. The working capital limits are adequate for the company to fund its working capital requirements during the first half of a fiscal, as after the start of the sale season, the limit utilisation moderates sharply and the firm usually has surplus funds on which it earns interest income. The overall fund-based limit utilisation remained around 17% for the 12 months ended May 2024.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a sustained track record of healthy growth in revenues and improvement in margins, leading to improved key credit metrics and liquidity position.

Negative factors – Pressure on the rating could emerge if there is a sustained decrease in the scale and margins due to adverse climatic conditions, limiting the availability of seeds, or if there are delays in receiving subsidy support from the Govt. of Haryana, resulting in a deterioration of the liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	NA
Consolidation/Standalone	Standalone

About the company

Haryana Seeds Development Corporation Limited (HSDCL) was established in 1974 to produce, process and distribute certified seeds. The company is a Haryana state government undertaking (a 55% equity shareholding), from which it derives financial support in the form of subsidies. The balance stake is owned by National Seeds Corporation Limited (22%) and associated farmers (23%). Although the corporation acts as a seed merchant to buy and sell seeds of all kinds in Haryana, over 90% of the processed seeds are wheat. The corporation has established six seed processing plants at Umri, Hisar, Sirsa, Yamuna Nagar, Tohana and Pataudi (all in Haryana), and a marketing office at Bhiwani. The combined processing capacity of HSDC's six plants is 4.90 lakh quintals, while the storage capacity is 4.49 lakh quintals. The marketing of certified seeds, fertilisers, gunny bags, etc., is undertaken by the company's own network of 79 sales counters spread across Haryana.

Key financial indicators (audited)

Standalone	Audited	Audited
	FY2021	FY2022
Operating income	113.2	94.8
PAT	3.0	0.8
OPBDIT/OI	3.90%	2.80%
PAT/OI	2.60%	0.80%
Total outside liabilities/Tangible net worth (times)	2	1.8
Total debt/OPBDIT (times)	2.7	0
Interest coverage (times)	2	1.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	Oct 28, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based - Cash credit		75.00	[ICRA]BB+ (Stable)		[ICRA]BB+ (Stable)		[ICRA]BB+ (Stable)		-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple

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	**Fund based – Cash credit**	NA	NA	NA	75.00	[ICRA]BB+ (Stable)

Source: Company

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

ANALYST CONTACTS

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Prashant Vasisht
+91 124 4545 322
prashant.vasisht@icraindia.com

Varun Gogia
+91 98 7115 6542
varun.gogia1@icraindia.com

Pawankumar Jagdale
+91 704 5595 212
pawankumar.jagdale@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches