

March 27, 2024

Acsen Agriscience Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term-Fund -based term loan	12.00	0.00	-
Long term-Fund based-cash credit	10.00	22.00	[ICRA]A (Stable); Reaffirmed
Total	22.0	22.0	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in the healthy operational profile of AAPL, characterized by its established presence in India's hybrid vegetable seed market and an extensive distributor network. The company is one of the leading payers in the hybrid vegetable seed segment and is present across India. Further, its strong research and development (R&D) capabilities, reflected in its presence in various hybrid vegetable seeds, along with the diversification into field crops support the revenue growth prospects. The ratings also factor in the healthy leverage and coverage indicators owing to minimal reliance on external borrowings and healthy network. ICRA notes that the profitability of the company has moderated in FY2024 significantly owing to impact on sales volumes driven by impact of irregular temporal and spatial distribution of monsoon. However, with a normal monsoon outlook for the upcoming kharif season coupled with introduction of new varieties of hybrid vegetable seeds, ICRA expects the company's performance to witness healthy improvement in FY2025. The improvement in performance and ramp up of sales from new seeds will remain a key monitorable.

The rating is, however, constrained by the intensely competitive vegetable seeds segment and a research-intensive industry with high investments required in R&D, which might adversely impact the company's profitability and cash accruals. The rating also factors in AAPL's moderate scale of operations, despite the recent improvement and high revenue concentration on the hybrid vegetable seeds segment which accounts for roughly ~68% of the company's top line. Further, the rating factors in AAPL's susceptibility to the uncertainty in agro-climatic conditions, which can adversely impact its operations of developing commercialised seeds and affect the demand for hybrid seeds as well.

The Stable outlook on the long-term rating reflects ICRA's opinion that AAPL will continue to benefit from the extensive experience of its promoters and its established research and development capabilities in the hybrid vegetable seed segment.

Key rating drivers and their description

Credit strengths

Established market presence in India's hybrid vegetable seed market – AAPL has established itself as one of the prominent players in the hybrid vegetable seed market in India through its strong research and development capabilities, supported by an extensive distributor network of over 1,600 distributors and a pan-India presence. AAPL also has more than 15 marketing offices in all the regions of India, catering to farmers of all geographies.

Strong in-house R&D capabilities – AAPL has established strong in-house R&D capabilities and a dedicated team to ensure the success of its seed development programmes. AAPL develops its own germplasms for many of its products and has established tie-ups with renowned institutes and universities around the world to obtain quality germplasms to develop other products.

This has resulted in its strong market position in the Indian hybrid seed market. AAPL has witnessed a healthy scale-up of operations, supported by acceptance and demand for its products from farmers.

Healthy financial profile – AAPL's financial risk profile remains healthy with healthy growth in revenues and healthy return indicators. The revenue witnessed growth in FY2023 rising to Rs. 316.1 crore in FY2023 from Rs. 276.4 crore in FY2022. The company has been posting RoCE in excess of 20% on a sustained basis over the last several years. Given the low reliance on debt and overall healthy cash generation, the Tol/TNW has remained low at around 0.4x as on March 31, 2023 as against 0.5x as on March 31, 2022. Going forward, while performance is expected to moderate in FY2024, the low reliance on debt provides comfort in terms of credit profile. ICRA expects the performance to improve in FY2025 with the launch of new products and a normal outlook for monsoon. The same will remain a key monitorable.

Credit challenges

Sustained R&D requirement for maintaining growth and market share – Given the intense competition in the hybrid seed industry, sustained research and development is necessary to develop seeds of premium quality in terms of pest resistance, quality and quantity of yield. The process of hybrid seed development also involves a long gestation period, usually around four to six years. This requires huge investment in R&D facilities, and demand estimation for the products being developed becomes more crucial. These factors increase the volatility of the company's profitability and cash accruals.

Moderate scale of operation and high revenue concentration on hybrid vegetable seed segment – AAPL's scale of operations remains moderate, despite healthy growth over the years with an operating income of Rs. 316.1 crore in FY2023. AAPL also derives a major portion of its revenue from the hybrid vegetable seed segment which contributes around ~75% to the total revenue. However, AAPL's diverse product portfolio within the segment with 21 different vegetable seed products and its foray into field crops mitigate this risk to an extent.

Business susceptible to uncertain agro-climatic conditions – The seed business is seasonal in nature and depends on rainfall and other climatic conditions. This exposes AAPL's revenue and profitability to crop and monsoon failure. However, AAPL's pan-India presence and commercial seed development programme in different regions mitigate the risk of monsoon failure in specific geographical regions of India to some extent.

Liquidity position: Strong

AAPL's liquidity position remains strong supported by Rs. 18.0 crore of unencumbered cash balances as on March 18, 2024, unutilized Rs. 25 crore of cash credit limit and expected cash accruals of Rs. 20-35 crore per annum over the course of FY2024-FY2026. The company does not have any term debt repayments and the estimated maintenance capex of Rs. 4-6 crore per annum can be comfortably met through internal accruals.

Rating sensitivities

Positive factors – ICRA may upgrade the rating if the company is able to scale up its revenues and profitability on a sustained basis.

Negative factors – Pressure on AAPL's ratings may arise if the company's cash accruals deteriorate significantly on account of a reduction in scale or profitability. A specific credit metric that ICRA may monitor for a possible downgrade is the core RoCE declining below 18.0% on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

AAPL was incorporated in 2009 and is an established player in the vegetable seed segment in India. The company was formed after the demerger of the vegetable seed division from Rasi Seeds Private Limited. AAPL has been involved in research, breeding, developing and sale of hybrid vegetable seeds and has established itself as a prominent player in the hybrid vegetable seeds market with a diverse product portfolio. AAPL has R&D facilities in Bengaluru, Coimbatore, Sohna and Kullu for product development and quality assurance. AAPL, since 2018, has expanded into the field crop segment (maize, pearl millet, mustard and paddy) with a focus on further diversifying its product portfolio.

Key financial indicators

	FY2022	FY2023
Operating income	276.4	316.1
PAT	39.0	30.6
OPBDIT/OI (%)	19.6%	14.3%
PAT/OI (%)	14.1%	9.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	73.7	75.3

Source: Company, ICRA Research; All ratios are as per ICRA's calculations; Amount in Rs. Crore.

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	Amount outstanding as on Feb 28, 2024	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
		(Rs. crore)	(Rs. crore)	27-Mar-24	23-Dec-22	30-Sep-21	1-Jun-20
1 Term loans	Long-Term	0	0	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2 Cash credit	Long-Term	22	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (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/Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term-Fund based-Cash credit	NA	NA	NA	22.0	[ICRA]A (Stable)

Source: Company

[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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