

June 28, 2024

## Seedworks International Private Limited: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based/ Cash credit	40.00	40.00	[ICRA]A (Stable); reaffirmed
Short term – Fund-based limits	30.00	50.00	[ICRA]A2+; reaffirmed/ assigned
<b>Total</b>	<b>70.00</b>	<b>90.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of Seedworks International Pvt Ltd (SIPL) and its wholly-owned subsidiary – Straits Biotech Pte Ltd – and its step-down subsidiary, Seedworks Philippines Inc, Philippines.

The assigned ratings factor in the extensive experience of the management in the seeds industry and the company's established relationships with farmers and distributors. ICRA also takes note of the company's established in-house R&D capabilities and a dedicated team to ensure the success of its hybrid seed development programmes. The ratings are supported by SIPL's well-diversified geographical presence with a pan-India network and export destinations like the Philippines and Nepal. The ratings also consider the strong investor profile with private equity (PE) firm, True North Fund V LLP, holding a majority stake (77.8% as on May 31, 2024).

The company's financial risk profile remains comfortable, characterised by a healthy growth in revenues and improvement in profitability in FY2024. ICRA notes that the performance of the company had moderated in FY2023 with the operating profit dropping to Rs. 28.4 crore in FY2023 from Rs. 53.9 crore in FY2022 owing to headwinds faced by both the cotton and the rice seed segments. However, the performance has improved with the operating profit rising to Rs. 45.07 crore in FY2024. The company's interest coverage ratio remained healthy at 5.25 times in FY2024, nearly the same as 5.41 times in FY2023. The company's borrowings are entirely working capital in nature (including farmer finance) and with the growth in the scale of operations, the debt levels increased to Rs. ~104.43 crore by the end of FY2024 from Rs. 95.1 crore at the end of FY2023. Going forward, ICRA expects the company's credit profile to remain stable with the incremental working capital requirements expected to be largely funded through internal accruals.

The ratings also factor in the strong R&D capabilities of the company which has enabled the company to consistently launch new products and maintain a stable market share in the hybrid segment. The ratings also factor in the wide geographical presence of the company across almost all states with different segments of crops focusing on different states.

The ratings are constrained by SIPL's moderate scale of operations vis-à-vis other industry players and the high revenue concentration risk with cotton and rice seeds accounting for majority of the revenues, although the combined share has declined to ~80-84% in FY2023 and FY2024 from around 90% in FY2019. The ratings also consider the regulatory risks inherent in the sector as cotton seed prices are regulated by the Government. Further, SIPL's revenues and profitability are susceptible to the uncertainty in agroclimatic conditions, as seen in the past, which can impact both the cost of production as well as the demand for hybrid seeds. Moreover, the demand estimation remains crucial owing to the long production cycle wherein the demand should be estimated in advance of the sale. ICRA also notes the long gestation period in the development of hybrid seeds.

The Stable outlook on the long-term rating reflects ICRA's opinion that SIPL's credit profile will continue to be stable, aided by the extensive experience of the management and the strong in-house R&D which will support the business growth. Moreover, the debt coverage indicators and liquidity position are expected to remain comfortable.

## Key rating drivers and their description

### Credit strengths

**Strong investor profile and experience of the management in seeds industry** – SIPL has a strong investor profile with PE firm, True North Fund V LLP, holding a majority stake. Further, the management has a long track record and an extensive experience in the seeds industry and maintains healthy relationships with farmers and distributors, resulting in repeat business every year.

**Healthy financial risk profile** – SIPL has a strong financial risk profile, characterised by a conservative capital structure with gearing at 0.7 times as on March 31, 2024 and healthy interest cover and DSCR of 5.41 times in FY2023 and 4.06 times in FY2024, respectively. The expected revenue growth along with an improvement in the profitability and no major capex plans in the near to medium term are expected to keep the company's incremental reliance on debt under check and its capitalisation and coverage metrics are likely to remain healthy.

**Strong in-house R&D facility** – SIPL has established in-house R&D capabilities and a dedicated team to ensure the success of its hybrid seed development programmes. SIPL develops its own breeder seeds at its R&D facility by procuring germplasm from various institutes. The R&D unit in Hyderabad and Karnataka is approved by the Department of Science and Industrial Research (DSIR), Government of India. SIPL's strong R&D team has supported the launch of several products in rice and cotton in the past. It has also started R&D of vegetables seeds in the last few years.

**Diversified geographical presence** – SIPL is geographically diversified with a pan-India presence, mitigating the region-specific agro-climatic risks to an extent. The top five states accounted for 44-55% of its revenues in the last three years. The company also exports rice seeds; exports accounted for ~13-17% of the total sales.

### Credit challenges

**Moderate scale of operations with susceptibility to seasonality and agro-climatic condition, high working capital intensity** – SIPL's scale of operations remained moderate vis-à-vis other industry players with revenue on a consolidated basis at Rs. 523.16 crore in FY2024. The company's operating performance remains susceptible to external factors such as erratic rainfall, soil and climatic conditions and crop diseases. ICRA notes the adverse impact of these factors on the profitability in FY2023. Further, SIPL's inventory requirements remain high and are influenced by the seasonality associated with its operations as the company focuses on kharif crops, for which it is required to build inventory from January.

**High crop concentration; likely to improve with expected increase in revenues from vegetables, millets and mustard** – SIPL's revenue concentration on cotton and rice seeds remains high at ~80% of its total revenue. The high concentration exposes the company to potential demand shocks in the rice and cotton industries or any plant-specific disease outbreak, resulting in crop failures. However, the product diversification is expected to slightly improve as the sales of millet, mustard and vegetable seeds are ramped up.

**Regulatory risks with Government's regulation on cotton seed prices and stiff competition in the industry: long gestation period makes demand estimation crucial** – The prices of cotton seeds are regulated by the Government, as per the Cotton Seed Control Order, 2015, limiting the pricing flexibility and margins of seed companies to an extent. Moreover, SIPL faces intense competition from other large private players in the hybrid seeds industry. Usually, the gestation period is seven-eight years. Although the presence of an advanced biotech lab operated by the company's subsidiary in Singapore reduces the gestation period, it's still long at four-six years. Moreover, the company needs to estimate the seed demand a year in advance of the sale, hence demand estimation becomes crucial.

### Liquidity position: Adequate

The company's liquidity position is adequate, with free cash and bank balance (including free FDs) of Rs. 95.2 crore as of March 2024 and no major capex plans or repayment obligations. The company's fund-based working capital limits, including farmer

finance, was ~60% utilised on an average during the 12 months ended March 2024. Thus, ICRA expects the liquidity position to remain adequate in the absence of any major capex plans, healthy cash balances and cushion in working capital limits.

## Rating sensitivities

**Positive factors** – ICRA may upgrade the ratings if the company demonstrates an improvement in the scale and profitability while diversifying its product portfolio, strengthening its financial risk profile on a sustained basis.

**Negative factors** – Pressure on SIPL's ratings could arise if the revenues and margins decline significantly on a sustained basis, or if any stretch in the working capital cycle impacts its liquidity position. A specific credit metric that could lead to a downgrade includes interest coverage ratio of below 5.0x times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Seedworks International Pvt Ltd (SIPL) and its wholly-owned subsidiary – Straits Biotech Pte Ltd – and its step-down subsidiary, Seedworks Philippines Inc, Philippines

## About the company

SIPL was incorporated in November 2008 as a 100% subsidiary of erstwhile Seedworks Singapore Pte Limited and was acquired by True North Fund V LLP, a Mumbai-based PE fund, in 2016, which currently holds a majority stake in the company. SIPL is involved in the research, breeding, development and sale of hybrid seeds with its headquarters in Hyderabad, Telangana, and R&D facilities across Hyderabad, Bengaluru, Lucknow, Hissar, Aurangabad and Alwar. SIPL sells under the brand name of US Agriseeds and is one of the leading players in hybrid rice seeds with increasing presence in cotton seeds. It started research on vegetable seeds in January 2018. From 2020, the company started the sales of millet and mustard seeds, which were acquired from Krishna Seeds Private Limited, and are sold under the brand name, Krishna Beej. SIPL is placed among the Great Place To Work (GPTW) India's Great Mid-Sizes Workplaces 2023 and ranked 24<sup>th</sup> among India's Great Mid-size Workplaces, winning 4<sup>th</sup> time in a row.

## Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	476.8	523.16
PAT	1.0	13.40
OPBDIT/OI	6.0%	8.6%
PAT/OI	0.2%	2.6%
Total outside liabilities/Tangible net worth (times)	1.9	2.8
Total debt/OPBDIT (times)	3.4	2.3
Interest coverage (times)	5.4	5.3

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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				June 28, 2024	-	Mar 3, 2023	Jan 7, 2022
1 Fund based/ Cash credit	Long term	40.0	-	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
2 Fund based Limits	Short term	50.0	-	[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based/Cash credit	Simple
Short term – Fund-based limits	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	Long term fund-based/ Cash credit	NA	NA	NA	40.0	[ICRA]A (Stable)
NA	Short term – Fund-based limits	NA	NA	NA	50.0	[ICRA]A2+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

#### Annexure II: List of entities considered for consolidated analysis

Company Name	Consolidation Approach
Straits Biotech Pte Limited	Full consolidation
SeedWorks Philippines Inc.	Full consolidation

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