September 03, 2024

KF Bioplants Pvt. Ltd.: 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	26.43	26.43	[ICRA]BBB (Stable); reaffirmed
Long-term Fund-based – Working capital limits	6.50	6.50	[ICRA]BBB (Stable); reaffirmed
Short-term Non-fund based – Working capital limits	1.25	1.25	[ICRA]A3+; reaffirmed
Total	**34.18**	**34.18**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings are primarily driven by the standalone credit profile of KF Bioplants Private Limited (KFB). ICRA has not consolidated the financials of its relatively stronger subsidiary, Futura Bioplants Private Limited (Futura; 50.11% shareholding of KFB), given the significant interest of its JV partner (49.89% shareholding of K Schoone Orchidden BV), which is expected to be a structural constraint on KFB's ability to have unfettered control over Futura's cash flows. The rating, however, factors in the probability of crystallisation of the contingent liability in the form of a corporate guarantee by KFB on Futura's debt.

The reaffirmation of ratings for KFB factors in its healthy financial risk profile and sustenance of the same over the near to medium term. The company reported revenues of Rs. 86.2 crore in FY2024 over Rs. 81.5 crore in FY2023, while maintaining a comfortable capital structure and coverage metrics. Additionally, the ratings continue to factor in KFB's established operational track record and its promoters' extensive experience of around two decades in the floriculture business. KFB also benefits from its strong association with Hilverda Florist BV, Netherlands (49.89% shareholding in KFB), which specialises in selection, breeding, and propagation of gerbera cut flowers and potted plants. Moreover, presence in both the export and domestic markets, supports diversification of the revenue stream. While domestic sales witnessed some moderation in FY2024, this was offset by increased exports, which stood at 80% of the total revenue over 69% in FY2023.

The ratings, however, remain constrained by KFB's moderate scale of operations, relative to the overall size of the floriculture industry. The company's margins also remain vulnerable to competition in the domestic market from artificial and other low-cost alternative flowers; and rising input costs, which it is unable to fully pass on. This has been demonstrated by the decline in the company's operating margins in the past two fiscals. Further, KFB is exposed to forex risk as a large share of its revenue comes from exports. Nonetheless, the import of mother seeds and royalty payment to breeders, coupled with repayment of its foreign currency loan, provide a natural hedge, thus minimising this risk to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will continue to benefit from its track record of operations, established client base and healthy financial risk profile.

Key rating drivers and their description

Credit strengths

Experienced promoters and strong association with Hilverda Florist BV – KFB is a joint venture between Manish Vimalkumar Jain Trust (50%) and Hilverda Florist BV (50%), and is promoted by Mr. Manish Vimalkumar Jain, who has been associated with the floriculture industry for more than two decades. Hilverda Florist BV is a Dutch company specialised in the selection, breeding and propagation of gerbera cut flowers and potted plants. It is also part of the Royal Hilverda Group, which has been involved in the breeding and propagation business over the last 110 years. KFB derives ~30.0% of its revenues from its sales to Hilverda Floerist BV. It also imports most of the mother seeds from them.

Diversified revenue stream from both export and domestic markets – KFB has a diversified geographic profile with presence in domestic and export markets. About ~80% of KFB's revenues are derived from exports with the Netherlands and Italy being its key export destinations, while the rest is generated from the domestic market. Despite moderation in domestic revenue, overall revenue growth in FY2024 was driven by healthy growth in exports. Going forward, revenue from exports will continue to account for 80-85% of its revenues, while domestic demand is expected to largely remain static.

Healthy financial risk profile – KFB's financial risk profile continues to remain healthy supported by steady accrual generation and moderate debt levels. Its gearing level continues to remain low at 0.2x (as on March 31, 2024). Despite some moderation owing to decline in margins, the coverage metrics remain healthy (interest coverage of 6.6x for FY2024). Moreover, the company's credit metrics are expected to remain comfortable over the near to medium term, supported by steady accrual generation and no material increase in debt levels.

Credit challenges

Moderate scale of operations – With revenues of Rs. 86.2 crore in FY2024, KFB's scale of operations continues to remain moderate, relative to the overall floriculture industry. However, ICRA expects some improvement in the company's scale of operations over the medium term with gradual increase in capacity utilisation of the recently commissioned laboratory.

Margins susceptible to competition from alternative as well as artificial flowers – The company faces competition from low-cost alternative and artificial flowers, thereby exerting pressure on its margins. The domestic demand for Gerbera has witnessed moderation in recent times, primarily due to the use of artificial and cheaper alternatives like roses, chrysanthemum, lilies, etc. Also, the company's profitability remains susceptible to increasing input costs given its inability to fully pass on the same to its customers. The average price per plant has largely remained constant over the past 2-3 years, despite steady increase in overall micropropagation costs.

Exposure to fluctuation in forex rates – The company generates ~80% of its revenues from exports, which exposes it to foreign currency fluctuations. Nonetheless, the import of mother seeds and royalty payment to breeders, coupled with foreign currency denominated loan repayments, provide a natural hedge and minimise this risk to some extent.

Exposed to agro-climatic conditions – The company is involved in the micropropagation of plants, most of which is carried out in a protected lab environment. KFB directly exports bare rooted plants from its laboratory to its overseas customers, while it grows the bare rooted plants in its greenhouse for domestic customers. While the greenhouse has regulated climatic conditions, it remains partially exposed to external agro-climatic conditions as was witnessed in the past when its revenues were impacted by the heavy floods in western Maharashtra.

Liquidity position: Adequate

KFB's liquidity profile remains **adequate**, supported by its steady accrual generation, cash and investment balance of ~Rs. 6.70 crore and cushion of Rs. 6.50 crore in the form of undrawn, fund-based working capital limits as on June 30, 2024. KFB has annual debt repayment of Rs. 5.0-6.0 crore during FY2025-FY2027, which is expected to be comfortably met through its internal accrual generation. ICRA also notes the equity buyback by the company in FY2024 and its plans to carry further buybacks over the near to medium term. Any higher than anticipated equity buyback and its impact on the company's liquidity profile will remain a key monitorable.

Rating sensitivities

Positive factors – ICRA could upgrade KFB's rating if it demonstrates significant improvement in its scale of operations while maintaining healthy debt protection metrics.

Negative factors – Pressure on KFB's ratings would arise if it witnesses considerable weakening in its revenue and profitability on a sustained basis or any significant debt-funded capex, or higher than anticipated dividend payout/ share buyback leads to weakening of its liquidity position and credit metrics. Specific metrics that could trigger a rating downgrade include Total Debt/OPBITDA above 2.5 times 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 primarily based on the standalone financial statement of the issuer. However, the rating also factors in the probability of crystallisation of the contingent liability in the form of corporate guarantee provided by KFB on Futura's debt.

About the company

KFB was established in 1997 as a joint venture between Florist Holland BV, Netherlands, and Kumar Gentech, India. Kumar Gentech was a 100% subsidiary of Kumar Properties in India. At present, the company is a JV between Manish Vimalkumar Jain Trust (50%) and Hilverda Florist BV (50%). Florist Holland BV merged with Hilverda Florist BV, effective from March 3, 2020. The company is a biotechnology firm with three propagation laboratory facilities in Pune (Maharashtra). It specialises in micropropagation of floriculture plant species (e.g., gerbera, anthurium, carnation, limonium, etc.)

Key financial indicators (audited)

KFB – Standalone	FY2023	FY2024*
Operating income	81.5	86.2
PAT	23.4	15.4
OPBDIT/OI	27.0%	17.6%
PAT/OI	28.7%	17.9%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	1.3	1.5
Interest coverage (times)	33.4	6.6

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Sept 03, 2024	Date	Rating	Date	Rating	Date	Rating
Term loan	Long term	26.43	**[ICRA]BBB (Stable)**	31-Aug-23	[ICRA]BBB (Stable)	10-Aug-22	[ICRA]BBB (Stable)	02-Jun-21	[ICRA]BBB (Stable)
Fund-based – Working Capital limits	Long term	6.50	**[ICRA]BBB (Stable)**	31-Aug-23	[ICRA]BBB (Stable)	10-Aug-22	[ICRA]BBB (Stable)	02-Jun-21	[ICRA]BBB (Stable)
Non-fund Based – Working Capital limits	Short term	1.25	**[ICRA]A3+**	31-Aug-23	[ICRA]A3+	10-Aug-22	[ICRA]A3+	02-Jun-21	[ICRA]A3+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term Fund-based – Working Capital limits	Simple
Short-term Non-fund Based – Working Capital limits	Very 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	**Term loan**	Dec 2021	EURIBOR+350bps	Dec 2027	26.43	[ICRA]BBB (Stable)
NA	**Fund-based – Working Capital limits**	NA	NA	NA	6.50	[ICRA]BBB (Stable)
NA	**Non-fund Based – Working Capital limits**	NA	NA	NA	1.25	[ICRA]A3+

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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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.

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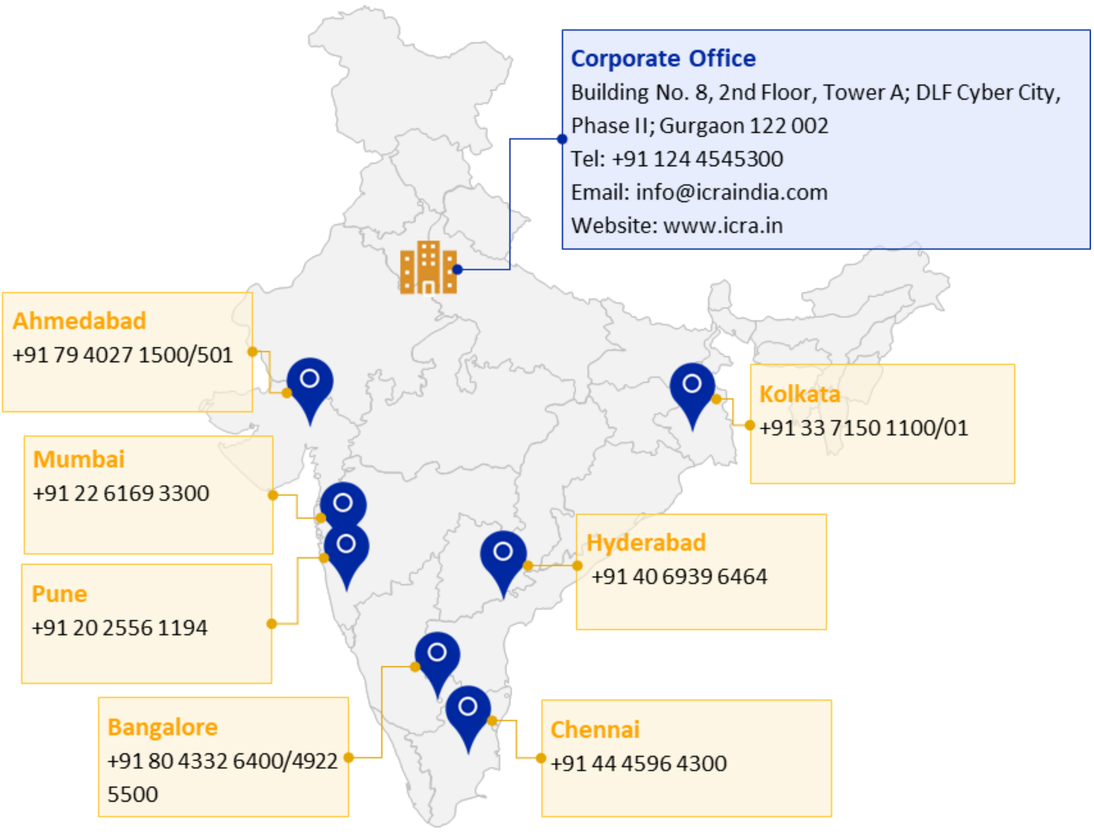

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