November 29, 2024

Rasi Seeds 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	10.67	1.00	[ICRA]AA- (Stable); reaffirmed
Long term – Unallocated	66.07	69.00	[ICRA]AA- (Stable); reaffirmed
Short term – Fund based	100.00	130.00	[ICRA]A1+; reaffirmed
Short term - Unallocated	25.00	0.00	-
Total	**201.74**	**200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of the ratings for Rasi Seeds Private Limited (RSPL) factors in its strong financial profile, marked by the growth in its revenues and profitability during the period from SY2018 to SY2023, along with the healthy return metrics, its strong debt coverage metrics and a superior liquidity position. The gross revenues and profit after tax have witnessed robust growth over the last five years, supported by the company's dominant market position in the domestic cotton seed segment. While the company's sales volumes moderated in SY2023 and are expected to dip slightly in SY2024 as well, the overall revenue and profitability has remained stable on the back of increasing realisations for cotton and the rising volumes of non-cotton sales.

The operating margins remained at around 25% (on gross revenue) in SY2022 and SY2023 and are expected to stay at similar levels in SY2024 as well. Given the healthy operating profitability, the return metrics have also been healthy with RoCE at around 28% in SY2023. Moreover, the strong cash flow from operations over the years has resulted in a superior liquidity position for the company with unencumbered cash and liquid investments of ~Rs. 730.4 crore as on October 30, 2024, and a negative net debt position.

The ratings also consider RSPL's strong in-house research and development (R&D) capabilities and an extensive distribution network with presence across all the crop growing regions in India, enabling it to emerge as one of the dominant players in the Indian hybrid cotton seed market. Further, the company has invested in foreign entities, engaged in similar lines of business, to expand its geographical footprint globally. RSPL is open to further investments to expand its geographic presence and ICRA will evaluate the investments on a case-to-case basis.

The ratings, however, remain constrained by the susceptibility of the company's earnings to agro-climatic and regulatory risks stemming from the Government of India's (GoI) control on cotton seed prices, which limits the pricing power of seed players. However, the scrappage of the trait fee in SY2020 and the increase in prices to Rs. 853 per packet in SY2023 supported the profitability to an extent. Further, RSPL has a relatively high product concentration with ~80% of the revenues derived from cotton seeds in SY2023. Nevertheless, ICRA takes note of the strong revenue growth in the non-cotton seed segment with a four-year CAGR of 16.4% for the period ended SY2023, its increasing proportion in RSPL's overall product pie and the company's greater focus on research & development (R&D) in this segment.

The Stable outlook on the rating reflects its strong operational profile, characterised by factors like a dominant market share in the cotton seed segment, strong procurement and distribution network as well as a diversified geographical presence. ICRA expects the company's debt metrics to remain strong and it is likely to maintain healthy cash balances and liquid investments, going forward.

Key rating drivers and their description

Credit strengths

Established player in India's hybrid cotton seed market - RSPL has a track record of over three decades. It is one of the dominant players in the Indian hybrid cotton seed market with a strong operational profile and ability to cater/launch seeds in diverse agro-climatic conditions and according to farmer preferences. Through its strong in-house R&D capabilities, the company has been able to periodically introduce variants in the market. It has also ventured into institutional sales through tie-ups with a few other players in the industry. These have helped the company expand its market share over the years.

Pan-India presence with wide distribution network and farmer connect – RSPL has a wide distribution network with presence across all the crop growing regions in India. The company has a strong sales and marketing network, comprising 31 carrying and forwarding (C&F) agents and ~2,500 distributors spread across 17 states. It is also backward integrated with ~28,000 contract farmers across the four southern states and cotton seed farming area spread across ~15,000 acres, ensuring smooth procurement. Further, the company has invested in foreign entities, engaged in similar lines of business, to expand its geographical footprint globally.

Strong financial profile – RSPL's financial profile remains strong with healthy profitability, depicted by a return on capital employed (RoCE) of over 20%, low debt levels with negative net debt/OPBDITA, strong debt coverage metrics and a superior liquidity position. The operating margins have remained stable at around 25% for SY2022 and SY2023 and are expected to remain in a similar range for SY2024 as well. Moreover, the strong cash flow from operations over the years resulted in a superior liquidity position for the company with unencumbered cash and liquid investments of ~Rs. 730.4 crore as on October 30, 2024 and a negative net debt position.

Credit challenges

Regulatory risks arising from Government regulation on cotton seed prices - As per the Cotton Seed Control Order, 2015, the GoI determines the maximum selling price and trait fee for Bt-II cotton seeds, thereby limiting the pricing flexibility and margins of seed companies to an extent. While the earnings of seed players will remain susceptible to the policy measures of the GoI, the scrappage of trait fee in SY2020 has supported the profitability.

High product concentration - RSPL continues to derive most of its revenues from cotton seeds. About 80% of the revenues in SY2023 came from cotton seeds, exposing the company to potential demand shocks in the cotton industry or any cotton plant-specific disease outbreak resulting in crop failure. However, its dominant position in the cotton seed market, coupled with the company's ability to periodically introduce hybrid variants, mitigates the risk to a large extent. Also, RSPL's portfolio of non-cotton hybrid seeds, which includes several major crops like maize, paddy and wheat, has witnessed a healthy growth in sales in the last few years at a CAGR of 16.4% (SY2018–SY2023) and its proportion in RSPL's overall product pie rose to ~20% in SY2023 from 14.0% in SY2020, with increased focus and R&D on non-cotton seeds.

Business susceptible to agro-climatic conditions - Like other agro-commodities, the seed industry and RSPL's business is seasonal and dependent on the monsoon. Also, with crops remaining vulnerable to diseases, pests and weeds, RSPL's earnings are susceptible to crop failures and disease outbreaks. However, the company's pan-India presence insulates it against the risks to a certain extent.

Liquidity position: Superior

RSPL's liquidity position is superior with a healthy buffer between the cash flow from operations and debt servicing, working capital and capex requirements. The company's cash flow from operations is expected to remain close to Rs. 200 crore on an ongoing basis against which the company has modest debt repayments of around Rs. 23.5 crore in FY2025 and minimal repayment thereafter. The company does not have major capex plans in the near to medium term and had unencumbered cash and liquid investments of around Rs. 730 crore as on October 30, 2024. The limit utilisation also remained modest during

the course of the year. ICRA notes that the company had undertaken a major buyback in FY2024 which was funded from the cash and liquid investments at hand. However, going forward, any materially large shareholder payouts may impact the company's liquidity position.

Rating sensitivities

Positive factors – ICRA could upgrade RSPL's long-term rating if it is able to diversify its products and show a sustained improvement in earnings while maintaining strong debt coverage metrics and liquidity position.

Negative factors – A sustained decline in the cash flow generation resulting in moderation in the leverage and coverage metrics may result in a rating downgrade. Any materially large debt funded capex, stretch in the working capital cycle and/or materially large shareholder payout resulting in significant deterioration in the credit and liquidity profile may result in a rating downgrade. A specific credit metric for downgrade would be interest coverage ratio of less than 7.0x.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	To arrive at the rating, ICRA has considered the consolidated financials of RSPL. The details of the consolidated entities are listed in Annexure II

About the company

RSPL is the market leader in the hybrid cotton seed market in India. While cotton seeds accounted for 83.1% of the revenues in SY2022, maize (6.9%), paddy (4.6%) and other seeds (5.4%) made up the rest of the revenue pie. RSPL has eight plants to process seeds grown by more than 28,000 contract farmers across the four southern states and has a wide distribution network of ~2,500 distributors across the country. RSPL has also invested in foreign entities, engaged in similar lines of business, with a total investment value of Rs. 292.7 crore. Apart from the seed division, the company has windmills with a total capacity of 4.25 MW.

RSPL was founded in 1986 by Mr. M. Ramasami, who hails from an agricultural family and graduated from Tamil Nadu Agricultural University. While the promoter's son, Mr. R. Rajendran, currently manages RSPL, the promoter's son-in-law, Mr. S. Senthilnathan, manages the Acsen Group of Companies, which has interests in vegetable seeds, textile and renewable energy. These entities operate independently with no major inter-corporate dealings, although the board of directors of all these companies comprises the family members of Mr. M. Ramaswami.

Key financial indicators (audited)

RSPL Consolidated	FY2022	FY2023	FY2024*
Operating income	1500.3	1448.5	1435.7
PAT	330.5	265.6	261.5
OPBDIT/OI	28.9%	22.2%	23.7%
PAT/OI	22.0%	18.3%	18.2%
Total outside liabilities/Tangible net worth (times)	0.89	0.71	0.57
Total debt/OPBDIT (times)	0.23	0.21	0.08
Interest coverage (times)	43.23	30.94	47.98

*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; *Standalone*

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)	Nov 29, 2024	Date	Rating	Date	Rating	Date	Rating
Fund based – TL	Long term	1.00	[ICRA]AA-(Stable)	31-Aug-23	[ICRA]AA-(Stable)	14-Jun-22	[ICRA]AA-(Stable)	09-Apr-21	[ICRA]AA-(Stable)
Unallocated	Long term	69.00	[ICRA]AA-(Stable)	31-Aug-23	[ICRA]AA-(Stable)	14-Jun-22	[ICRA]AA-(Stable)	09-Apr-21	[ICRA]AA-(Stable)
Fund based	Short term	130.00	[ICRA]A1+	31-Aug-23	[ICRA]A1+	14-Jun-22	[ICRA]A1+	09-Apr-21	[ICRA]A1+
Unallocated	Short term	-	-	31-Aug-23	[ICRA]A1+	14-Jun-22	[ICRA]A1+	09-Apr-21	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Term loan	Simple
Long term – Unallocated	Not Applicable
Short term – Fund based	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 – Term loan**	Oct 2019	-	FY2026	1.00	[ICRA]AA- (Stable)
NA	**Long term – Unallocated**	-	-	-	69.00	[ICRA]AA- (Stable)
NA	**Short term – Fund-based**	-	-	-	130.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rasi Seeds Private Limited	100.0%	Full Consolidation
Rasi Agri Bio-genetics Private Limited	93.3%	Full Consolidation
Sira Seeds Private Limited	99.9%	Full Consolidation

Source: Company

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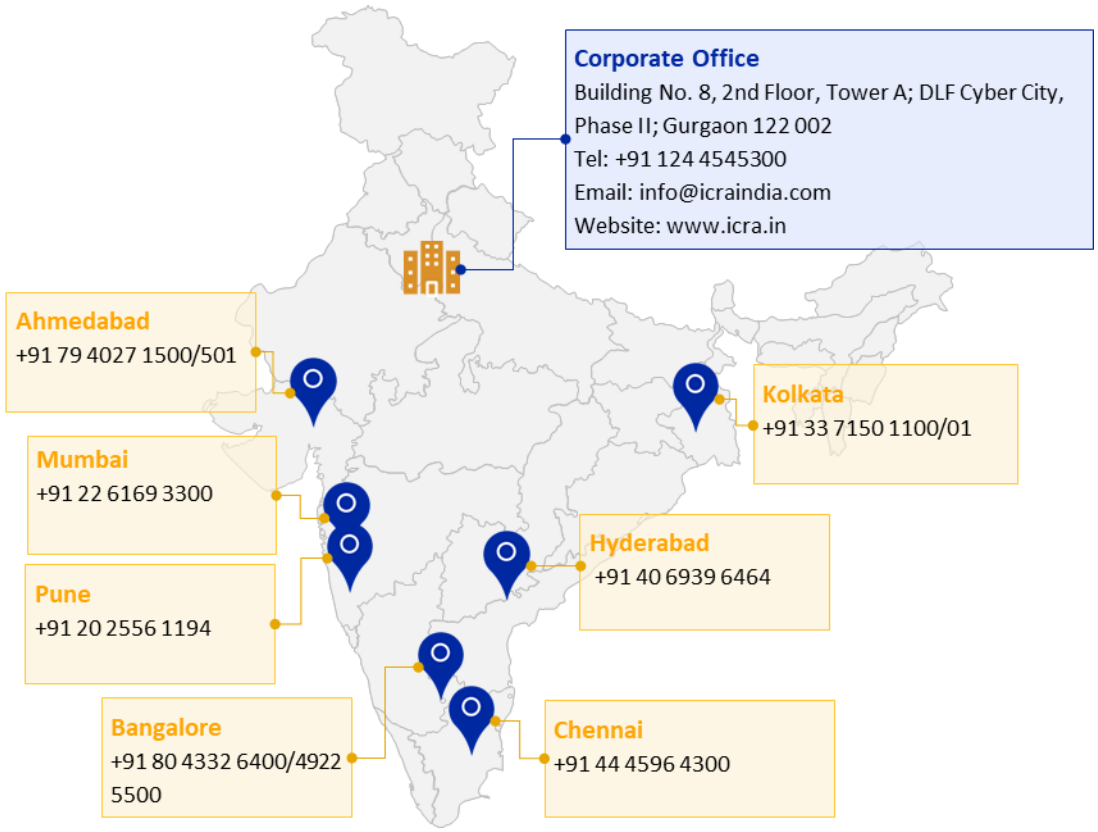

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