

April 12, 2017

Pravardhan Seeds Private Limited

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based limits	9.80	[ICRA]BBB-(Stable) re-affirmed
Unallocated limits	10.20	[ICRA]BBB-(Stable) re-affirmed

*Instrument details are provided in Annexure-1

Rating action

ICRA has re-affirmed the long-term rating assigned to Rs. 9.80 crore¹ fund-based limits and Rs. 10.20 unallocated limits of Pravardhan Seeds Private Limited (“PSPL” / “the company”) at [ICRA]BBB-(pronounced ICRA triple B minus)². The outlook on the long-term rating is ‘Stable’.

Rationale

The re-affirmation of ratings continues to factor in the technical support received by PSPL from Nuziveedu Seeds Limited (NSL, one of the largest seed producers in India), which holds 51% stake in the company. ICRA also notes the comfortable capital structure of PSPL with a gearing of 0.30 times as on December 31, 2016, with the entire debt being working capital in nature. The rating further continues to positively factor in the strong visibility of PSPL’s brands in cotton, maize and paddy under which NSL’s products are currently traded.

The rating, however, remains constrained by the moderate scale of operations of the company and high product concentration risks with cotton and maize contributing ~90% to PSPL’s revenues. The ratings further take into account the company’s modest profitability levels owing to write off of slow moving stock in the last two years. Moreover, the company’s revenue during 9M FY2017 has been impacted by the reduction in cotton seed prices owing to price regulations imposed by the Government of India. In addition, with respect to usage of Bacillus thuringiensis (BT) technology for cotton seeds, while ICRA notes that NSL (and its subsidiaries) has received a favourable ruling with respect to continuation of license agreement³ with Mahyco Monsanto Biotech (India) Limited (MMBL), the uncertainty with respect to payment of trait fees⁴ remains.

Going forward, the ability of PSPL (via NSL) to develop in-house hybrid varieties, as well as ensure cost rationalisation measures to achieve revenue growth and sustain profitability levels remain the key rating sensitivities. Furthermore, the actual liability of PSPL towards trait fees to be paid to MMBL will also remain a key monitorable from a rating perspective.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website www.icra.in or other ICRA Rating Publications

³ NSL and PSPL signed a sub-license agreement with Mahyco Monsanto Biotech(India) Limited effective from April 1, 2015 for usage of the BT cotton technology for a period of 5 years

⁴ Fees to be paid for usage of BT cotton technology

Key rating drivers

Credit Strengths

- Technical support from NSL, which holds 51% stake in PSPL.
- Comfortable gearing level with the debt availed confined to working capital borrowings
- Strong visibility of PSPL's brands under which NSL's products are traded

Credit Weakness

- Moderate scale of operations
- Exposure to regulatory risk pertaining to seed prices also evident from revenue decline during 9M FY2017 owing to reduction in overall cotton prices due to price regulations imposed by the Government of India
- High product concentration with dependence on cotton and maize accounting for ~90% of total sales; however, NSL has a significant visibility and established presence in the market.
- Reduction in profitability level in the last two years due to trading of NSL's products and write off of bad debts and slow moving stocks
- Presence in a highly competitive and fragmented market, with both production and sales exposed to agro-climatic conditions.

Description of key rating drivers:

PSPL is primarily engaged in marketing and production (to a certain extent) of hybrid seeds with focus on cotton, maize and paddy. In the last two to three years, it has been predominantly marketing products manufactured by NSL (an established and one of the largest seed manufacturers in India), which is a majority stake holder in PSPL.

During 9M FY2017, the revenue of the company was impacted by reduced cotton seed prices (amid the preponderance of cotton sales in the overall revenue) owing to price regulations imposed by the Central Government on cotton seed prices with a cap at Rs. 800/packet (of 450 grams). Moreover, the company signed a sub-license agreement with Mahyco Monsanto Biotech (India) Limited for a period of five years (valid from April 1, 2015) for usage of the BT cotton technology for cotton seeds production. However, following the regulation of trait fees by the Telangana Government to Rs. 50/packet (as against Rs. 163/packet being charged by MMBL), PSPL recognised its trait fee expense as per the Government regulation and also recognised the difference as a contingent liability, given that MMBL approached the Delhi High Court regarding the issue and terminated the license agreement. During FY2017, the company has paid trait fees as per Central Government regulations released in March 2016. During March 2017, NSL (along with its subsidiaries) received a favourable ruling from the Delhi High Court as per which the license agreement signed with MMBL is to be continued for the agreed tenor. However, the uncertainty with respect to trait fees to be paid remains.

Given the price regulations on cotton seeds, and uncertainty on trait fees, the ability of the company (supported by NSL) to develop new hybrid varieties of seeds as well as introduce cost control mechanisms to sustain healthy profitability levels remain crucial from a credit perspective.

Analytical approach: For arriving at the ratings, ICRA has taken into account the support received by PSPL from NSL.

Links to applicable Criteria:

Corporate Credit Ratings: A Note on Methodology

About the company:

Pravardhan Seeds Private Limited (PSPL), originally incorporated in 1971 (re-instated in 2008) by Mr. Murahari Rao, is involved in hybrid seed production, marketing and sales. In 2008, NSL acquired 51% stake in PSPL, following which the company has largely been marketing products manufactured by NSL under its brand name.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating history for last three years:

Table: Rating history

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2015	Month - year & Rating in FY2014
1	Fund-Based Limits	Long term	9.80	April 2017	Apr-16	Apr-15	Feb-14
				[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)
2	Unallocated Limited	Long term	10.20	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Cash Credit				9.80	[ICRA]BBB-(Stable)
Unallocated limits				10.20	[ICRA]BBB-(Stable)

Source: PSPL

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