

Rajasthan State Seeds Corporation Limited

December 20, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	100.00	100.00	[ICRA]BBB-(Stable); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating continues to draw comfort from RSSCL's strategic importance for the State Government of Rajasthan as well as the Central Government, given its nodal role in executing agriculture development programmes in the state of Rajasthan. This is corroborated from the benefits it receives by way of revenue, production and capital subsidies under various schemes sponsored by the Central and State Governments. The rating also continues to be supported by RSSCL's long standing presence in the seed production and processing industry with a large network of growers, presence of processing cum warehousing units across 21 districts of the state, and widespread distribution network of dealers, further supported by access to outlets of Rajasthan State Co-operative Marketing Federation and various other co-operatives operating in the state. Even as the company typically sells seeds below the operating costs and its profitability remains volatile given the exposure to agro-climatic risks, its operational strengths coupled with continued government support by way of revenue and production subsidies have been supporting adequate profitability (though volatile).

The rating continues to be constrained on account of significant seasonality in RSSCL's operations with high working capital requirements during the harvest season driven by the need for prompt payment to farmers against procurement and lag in sales which happen during the next sowing season. This results in high utilization of working capital limits for considerable part of the year (utilisation is however minimal at fiscal year-end) and hence can stress the liquidity position. Nevertheless, comfortable capital structure characterized by Peak Total Debt (TD)/Tangible Net Worth (TNW) of less than 0.8x (during the procurement season) continues to support adequate debt coverage indicators as reflected by minimum DSCR of 1.5 times in the past seven years.

Outlook: Stable

While RSSCL's future performance remains contingent on several unforeseen factors such as the agro-climatic conditions, changes in subsidies and variation in yields, its established market position and access to benefits by way of subsidies are expected to continue to support the scale of operations and hence cash accruals. This coupled with low dependence upon borrowings is likely to keep the debt coverage indicators comfortable. Hence, the outlook on the long-term rating is 'Stable'. The outlook may be revised to 'Positive' if RSSCL's dependence upon subsidies declines on a sustainable basis, besides a meaningful reduction in product concentration leading to a decline in seasonality and exposure to agro-climatic risks. The outlook may be revised to 'Negative' in case of delays in receipt of subsidies, sharp deterioration in working-capital cycle or profitability impacting the cash flows/ liquidity.

Key rating drivers

Credit strengths

Strategic importance for the Government, for executing agriculture development programmes in the state of Rajasthan - RSSCL, a Government of Rajasthan undertaking, was established in the year 1978 under Government of India's, World Bank-aided National Seed Project. As promoting agriculture is one of the key agendas of the Government, RSSCL is expected to remain an important entity in the state of Rajasthan for executing agriculture development programmes. In this regard, RSSCL has been a beneficiary of Government support by way of revenue subsidies to facilitate availability of seeds to farmers at subsidized rate. The company is also supported in production programmes by way of production subsidy, whereby breeder and foundation seeds are given to growers at subsidised rates to promote their participation.

Strong presence of 'Rajseeds' brand and widespread distribution network of dealers in the State of Rajasthan - RSSCL markets certified seeds in various stock-keeping units (SKUs) under the brand name 'Rajseeds', which is a registered trade name. These certified seeds are sold through its network of wholesale dealers, authorised dealers and outlets of Rajasthan State Co-operative Marketing Federation (RAJFED). Besides, the company also supplies certified seeds to various Government agencies viz. Department of Agriculture, and Horticulture Department for demonstration and distribution of mini kits.

Large network of about 10,000 growers and 22 processing cum warehousing units across 21 districts of the state - The production of certified seeds by RSSCL and other State Seed Corporations is organized through contract growing arrangements with farmers besides seed production on their own farms. While RSSCL has own farm base of about 1,000 hectares, the company continues to be largely dependent upon contract growers, wherein it has managed to increase its network to more than 10,000 farmers over the years. To undertake processes like sorting, grading, and cleaning, the company has installed 22 processing cum warehousing units across 21 districts in the state, whereby it has annual processing capacity of 1.9 million quintals (Qtls.) and storage capacity of 1 million Qtls.

Track record of minimal inventory carried forward from previous season mitigates the inventory obsolescence risks - In contrast to RSSCL's long production cycle, its sales typically take place within a short span of time prior to the sowing season. This short sales window increases RSSCL's vulnerability to fluctuations in demand and prices. The inflexibility on production side and short sales period exposes the company to inventory risks if sales do not take place as budgeted. This also increases the risk of damage and storage costs as the sales then get deferred to the next season. However, RSSCL's track record of selling undersized and rejected seeds and carrying limited finished goods inventory by the end of sowing season provides comfort.

Comfortable financial profile characterized by Peak TD/TNW of less than 0.8x – Notwithstanding the seasonality in working capital requirements with dependence on debt peaking during the first half of a fiscal year, RSSCL continues to maintain a comfortable capital structure characterized by peak gearing of less than 0.8x. This low dependence upon debt continues to support adequate debt coverage indicators as reflected by minimum DSCR of 1.5 times in the past seven years.

Credit weaknesses

High dependence on government subsidies – RSSCL receives grants from the State and the Central Governments as it sells seeds below the operating costs. This is corroborated by the fact that the company reported an operating profit of Rs. 8.9 crore and net profit of Rs. 1.1 crore in FY2018 compared to subsidies of Rs. 42.1 crore utilized during the year. Thus, it is highly dependent on the timely subsidy support, and its sales and profitability are vulnerable to any adverse changes in the government policies.

Concentrated product portfolio - RSSCL organizes seed production programmes through seed growers for wide variety of crops as reflected in a product portfolio encompassing more than 25 crops of cereals, oilseeds, pulses, cash crops etc. It, however, continues to derive bulk of sales from Rabi crops on account of its low market share in cotton seeds and adverse weather condition in Rajasthan for Kharif crops. Furthermore, while the company has achieved healthy growth in sales quantity for most of the crops, the dependence upon wheat and soybean crops remains high as these two combined account for about 70% of the sales quantity. This product concentration augments the exposure to agro-climatic risks.

Significant seasonality in operations with high working capital requirements during the harvest season – RSSCL’s credit profile is constrained by significant seasonality in operations with high working capital requirements during the harvest season driven by the need for prompt payment to farmers against procurement, and lag in sales which happen during the next sowing season. This results in high utilization of working capital limits for considerable part of the year (utilisation is however minimal at fiscal year-end) and hence can stress the liquidity position.

Exposure to agro-climatic risks – RSSCL’s business is dependent on the rainfall and other climatic conditions necessary for cultivation of various crops. In this regard, poor agro-climatic conditions can impact the overall demand for seeds from farmers and lead to inventory pile-up. Also, the company is exposed to production uncertainty on account of agro-climatic risks which may affect the area under cultivation or crop output and quality, as has been the case with soybean and wheat output during the past few years. Besides, poor yields/output in a particular year can also drive a decline in area under cultivation in the subsequent year.

Liquidity Position

Comfortable liquidity profile, though, some moderation is witnessed during the peak procurement season - Given the seasonal nature of business, RSSCL’s working capital requirements vary during the year, and are low at the fiscal year ending as purchases related to Rabi crop season happen in subsequent months. Thus, while the company has sizeable liquid investments/balances and large undrawn bank lines in March, its liquidity buffer moderates in subsequent months. Nevertheless, RSSCL’s liquidity position remains satisfactory even during the peak procurement season with peak working capital limit utilization of 80-90%. The limit utilization levels increase during April to August on account of inventory buildup resulting from wheat and other crop purchases made during this period.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

About the company

Incorporated in 1978, RSSCL, under the administrative control of the Department of Agriculture, Government of Rajasthan is engaged in production, processing, packaging and distribution of certified seeds in the state of Rajasthan. The company organizes seed production programmes through seed growers for more than 25 crops of cereals, oilseeds, pulses, cash crops etc., and has installed 22 processing cum warehousing units across six regions in the state, whereby it has annual seed processing capacity of 1.9 million Qtls. and storage capacity of 1.0 million Qtls.

Key Financial Indicators (Audited)

	FY2015	FY2016	FY2017	FY2018
Operating Income (Rs. crore)	241.3	229.7	224.4	302.3
PAT (Rs. crore)	5.4	3.0	15.9	1.1
OPBDIT/ OI (%)	6.6%	3.9%	12.0%	2.9%
RoCE (%)	12.1%	5.4%	21.5%	5.9%
Total Debt/ TNW (times)^	0.1	0.0	0.0	0.0^
Total Debt/ OPBDIT (times)^	0.9	0.0	0.0	0.4^
Interest coverage (times)	2.6	3.0	17.6	1.5
NWC/ OI (%)	25.9%	21.5%	27.4%	25.0%

^Working capital requirements and hence utilisation of cash credit limits is low in March. The utilisation of fund-based working capital limits increases in months of April to August following procurement of wheat.

Note: OPBDIT: Operating Profit before Depreciation, Interest, and Taxes; PAT: Profit after Tax; TNW: Tangible Net Worth; NWC: Net Working Capital.

Source: RSSCL's Annual Reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016	
					Dec 2018	Dec 2017	Dec 2016	Feb 2016	
1	Cash Credit	Long Term	100.00	-	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	100.00	[ICRA]BBB- (Stable)

Source: RSSCL

Annexure-2: List of entities considered for consolidated analysis: Not applicable

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