

January 14, 2020

SeedWorks International Private Limited: Ratings upgraded; Rated amount enhanced

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based/Cash Credit	0.00	40.00	[ICRA]BBB+(Stable) upgraded from [ICRA]BBB(Stable)
Fund based limits	0.00	30.00	[ICRA]A2; upgraded from [ICRA]A3+
Unallocated limits	25.00	0.00	-
Total	25.00	70.00	

**Instrument details are provided in Annexure-1*

Rationale

The ratings upgrade factors in the company's improved financial profile characterised by healthy revenue growth and improved margins, which, along with equity infusion, aided in better capital structure and credit metrics. SeedWorks International Private Limited (SIPL) witnessed a 43% revenue growth in FY2019 backed by healthy growth in sales volume of rice and cotton seeds. The revenue growth is expected to be healthy in the near term with ramp up in vegetable seeds' sales, revenues from millet and mustard (business acquired in FY2019), besides higher cotton volumes with higher demand for recently launched products. SIPL's operating margins improved with lower cost of production and higher scale of operations. The company witnessed equity infusion of Rs. 57.9 crore in FY2019 and H1 FY2020 towards the acquisition of Krishna Research Seeds Private Limited (engaged in millet and mustard seed production), which, along with improving margins is expected to result in improved capital structure and coverage metrics going forward. The rating considers its strong investor profile with the private equity (PE) firm, True North Managers LLP, holding majority of stake in the company. The rating draws comfort from the extensive experience of the management in the seeds processing industry and the company's established relationships with farmers and distributors. ICRA positively factors the established in-house R&D capabilities and a dedicated team to ensure the success of its hybrid seed development programmes leading to healthy volume and revenue growth. These apart, the rating notes its well-diversified geographical presence with a pan-India network, as the top five states accounted for 52-53% of its revenues in FY2019 and 5M FY2020.

The ratings are, however, constrained by the company's moderate scale of operations with high dependence on two products cotton and rice seeds, which accounted for 92-95% of total sales over the last two years. The ratings also consider the regulatory risks inherent to the sector as cotton seeds prices are regulated by the Government, as well as the stiff competition in the hybrid seeds industry from other private players and state seed corporations, which can restrict SIPL's revenue growth and profitability. Further, SIPL is susceptible to uncertainty in agro-climatic conditions, which can impact both SIPL's cost of production as well as demand for hybrid seeds. Moreover, demand estimation remains crucial owing to long production cycle wherein demand should be estimated a year in advance of the sale. ICRA also takes note of the long gestation period in development of hybrid seeds.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's belief that SIPL will continue to benefit from the extensive experience of its management in the seeds industry, its strong in-house R&D team, and strong investor profile, i.e., True North PE firm.

Key rating drivers and their description

Credit strengths

Strong investor profile and extensive experience of management in seeds industry – SIPL has a strong investor profile with the PE firm, True North Managers LLP (India Value Fund), holding majority of stake in the company. Further, the management has a vast track record and extensive experience in the seeds industry and maintains healthy relationships with farmers and distributors, resulting in repeat business every year.

Improved financial performance with equity infusion and healthy revenue growth – The company's revenues witnessed a healthy growth of 43% in FY2019 backed by healthy growth in sales volume of rice and cotton seeds given the increased demand for its products. The revenue growth is expected to remain healthy in the near term with growth in vegetable and cotton seeds. Its operating margin improved to 4.7% in FY2019 with an increase in scale resulting in better absorption of fixed overheads. Moreover Rs. 57.9 crore equity was infused in FY2019 and H1 FY2020 towards acquisition of Krishna Research Seeds Private Limited (KRSPL), involved in processing of millet and mustard seeds. Improved scale and margins with, equity infusion aiding in better capital structure and credit metrics in FY2019 and current year.

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 in its R&D facility by procuring germplasm from various universities. The R&D unit at Hyderabad 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 successful products in rice and cotton in the past. It has started R&D of vegetable seeds in the recent years, which is being operated under the leadership of Dr. Balaji Nukul, who has been leading the vegetable team, before it was sold to Bayer Crop Science.

Diversified geographical presence – SIPL is geographically diversified with pan-India presence mitigating the region-specific agro-climatic risks to an extent. The top five states accounted for 52-53% of its revenues in FY2019 and 5M FY2020. The company exports rice seeds; however, exports account close to ~10% of the total sales.

Credit challenges

Moderate scale of operations with high seasonality associated – SIPL's scale of operations remained moderate, despite healthy growth over the years, with revenues of Rs. 273.4 crore in FY2019 and Rs. 279 crore in 9M FY2020. Also, given the seasonality in sales, ~85% of the sales (primarily cotton and rice seeds) happen in the months of April-August, keeping the working capital cycle highly concentrated during peak seasons. Moreover, the product concentration is high as cotton and rice seeds account for a major part of its sales. Nevertheless, going forward, product concentration and seasonality in revenues is likely to improve to an extent with ramp up in sales of millet, mustard, and other vegetable seeds.

High gestation period for seed development; demand estimation becomes crucial at production stage – The gestation period is long at around four-six years from breeder to commercial seeds. While the company has an established product portfolio of rice and cotton seeds supporting revenue growth over the years, it has started vegetable research recently and is yet to commercially launch its own vegetable hybrids. Moreover, the company needs to estimate the demand a year in advance of the sale; hence demand estimation becomes crucial. However, the same is mitigated to an extent given SIPL's prudent inventory management.

High exposure to regulatory risks and stiff competition in industry – The prices of cotton seeds are regulated by the Government and all companies adhere to the price fixed by the Government. Moreover, SIPL faces intense competition from other large private players and state seed corporations in the hybrid seed processing industry.

Liquidity position: Adequate

The company's liquidity position is adequate, despite negative retained cash flows, given the sizable buffer in working capital limits (Around 50% of the total sanctioned limits of Rs. 130 crore was unutilized and is available for future utilisation). It reported Rs. 51.8 crore cash outflow towards acquisition of KRSPL in FY2019 and H1, FY2020, which was completely funded through infusion of fresh equity. Further, going forward, SIPL does not have any major capex plans or repayment obligations. Overall, ICRA expects SIPL to be able to meet its near-term commitments through internal as well as external sources of cash and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive triggers – ICRA could upgrade SIPL's rating if the company is able to achieve significant revenue growth, product diversification and improved profitability, thereby strengthening its financial risk profile on a sustained basis. Specific credit metrics that could lead to a rating upgrade include achieving interest coverage of more than 4.0 times.

Negative triggers – Negative pressure on SIPL's rating could arise if revenues and profitability margins deteriorate, or if any stretch in working capital cycle impacts the liquidity position of the company.

Analytical approach

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

About the company

SIPL was incorporated in November 2008 as a 100% subsidiary of erstwhile Seedworks Singapore Pte Limited and has been acquired by True North Managers LLP, a Mumbai-based PE fund, in 2016. SIPL is involved in research, breeding, developing and sale of hybrid seeds with its headquarters in Hyderabad, Telangana and R&D facilities spread across Hyderabad, Bangalore, Lucknow, Hissar, Aurangabad and Abohar. 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. Further, the company acquired the mustard and millet business of Krishna Seeds Private Limited in January 2019, which was de-merged into a new company Krishna Research Seeds Private Limited (KRSPL). Millets and mustard seeds are sold under the brand name Krishna Beej. The company is certified as a Great Place To Work (GPTW) (July 2019 to June 2020).

Key financial indicators

	FY2018	FY2019
Operating Income (Rs. crore)	191.7	273.4
PAT (Rs. crore)	-1.7	8.2
OPBDIT/ OI (%)	1.2%	4.7%
RoCE (%)	7.3%	23.9%
Total Outside Liabilities/Tangible Net Worth (times)	37.3	6.2
Total Debt/ OPBDIT (times)	11.5	3.3
Interest Coverage (times)	0.6	2.9
DSCR	0.8	3.3

Source: company

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years

Instrument	Type	Current Rating (FY2020)			Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs.crore)	Date & Rating January 14, 2020	Date & Rating in FY2019 October 01, 2018	Date & Rating in FY2018	Date & Rating in FY2017	
		1	Cash Credit	Long Term	40.00	-	[ICRA]BBB+ (Stable)	-
2	Working Capital Demand Loan	Short Term	30.00	-	[ICRA]A2	-	-	-
3	Unallocated	Long Term/ Short Term	0.00	-	-	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-

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	-	-	-	40.00	[ICRA]BBB+(Stable)
NA	Working Capital Demand Loan	-	-	-	30.00	[ICRA]A2

Source: SIPL

ANALYST CONTACTS

K. Ravichandran
+91 44 4596 4301
ravichandran@icraindia.com

R. Srinivasan
+91 44 4596 4315
r.srinivasan@icraindia.com

Nithya Debbadi
+91 40 4067 6515
nithya.debbadi@icraindia.com

Prateek Pasari
+91 40 4067 6517
prateek.pasari@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents