

Press Release

Kirtiman Agrogenetics Limited

28 July, 2017



Rating Reaffirmed

Total Bank Facilities Rated	Rs. 9.00 crore
Long Term Rating	SMERA BB/Stable (Reaffirmed)

SMERA has reaffirmed the long term rating of '**SMERA BB**' (read as **SMERA double B**) on the Rs. 9.00 crore bank facilities of Kirtiman Agrogenetics Limited (KAL). The outlook is '**Stable**'.

KAL, incorporated in 2008, part of the Shiva Group is engaged in the research, production and marketing of hybrid seeds. The company is a subsidiary of Shiva Global Agro Industries Limited (SGAIL), which is engaged in the manufacture of fertilisers, seeds and extraction of soyabean oil. KAL has its own Research and Development facility at Aurangabad.

List of key rating drivers and their detailed description:

Strengths

Experienced management: The promoters, Mr. Divakar Shetty and Mr. Omprakash Gilda have over 25 years of experience in the agro industry.

Established marketing and distribution network: KAL sells under own brand 'Kirtiman'. KAL has over 300 dealers in Telangana, Bihar, Chhattisgarh, Rajasthan among other states. Moreover, the company also leverages on the wide distribution network of its group companies (Shiva Group) spread across Maharashtra, Karnataka and other parts of India. Thus, it has been able to forge long lasting relationships with its customers.

Moderate financial risk profile: KAL's moderate financial risk profile is marked by low gearing and comfortable coverage indicators. The gearing (debt to equity ratio) stood at a low of 0.32 times as on March 31, 2017 (Provisional). The Interest coverage ratio improved to 2.08 times in FY2017 (Provisional) from 1.77 times in FY2016. The tangible net worth stood at Rs. 14.93 crore as on March 31, 2017 (Provisional).

Diversified product portfolio: The company has a diversified product portfolio with over 30 commercial seeds of crops and more than 75 varieties sold in the market. However the revenue is dominated by three crops i.e BT-Cotton, paddy and maize which account for 65 per cent of revenues in FY2017.

Weaknesses

Moderate scale of operations with uneven revenues: KAL has moderate scale of operations with uneven revenue of Rs.36.42 crore in FY2017 (Provisional), Rs. 29.29 crore in FY2016 and Rs.32.61 crore in FY2015. The revenues have remained uneven due to the cyclical nature of the industry and crop

switching by farmers.

Working capital intensive operations: KAL's gross current asset (GCA) days stood at 220 for FY2017 (Provisional) as against 278 day in FY2016. KAL's operations are working capital intensive with working capital cycle of 176 days in FY2017 as against 179 days in FY2016 on account of high inventory holding period of 124 days in FY2017 as well as high debtor days of 84 in FY2017. The average bank limit utilisation has been at 70 per cent in the last six months ending June 2017.

Highly fragmented, competitive and seasonal industry: The Indian agricultural industry is highly fragmented sector with a large number of unorganised players and low capital investment requirements. Also, KAL is exposed to seasonality in agriculture commodities mainly cotton and maize seeds.

Vulnerability of margins to fluctuation in the prices of agricultural commodities: The prices of agricultural commodities are volatile and linked to the production in the domestic market and global demand supply situation. The prices are also affected by changes in government regulations and vagaries of the weather. Thus, the profitability of KAL is vulnerable to fluctuation in raw material prices as it has higher inventory holding period based on seasonality.

Analytical Approach

SMERA has changed the rating approach from parent notch up and considered a standalone business and financial risk profile along with the on-going support from parent company to arrive at the rating for KAL.

Applicable Criteria

- Manufacturing entities - <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that KAL will maintain a stable outlook over the medium term owing to its promoters' extensive experience in seed processing. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially, while maintaining its operating profitability. Conversely, the outlook may be revised to 'Negative' if the company fails to achieve scalability amidst intensifying competition or if the financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the rated entity – key financials

For FY2016-17(Provisional), the company reported profit after tax (PAT) of Rs.0.19 crore on operating income of Rs.36.42 crore, as compared with net profit of Rs.0.13 crore on operating income of Rs.29.29 crore in FY2015-16. The company's net worth stood at Rs.14.93 crore as on March 31, 2017 (Provisional) as against Rs.14.44 crore, a year earlier.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs.Cr.)	Ratings/Outlook
02-June, 2016	Cash Credit	Long Term	9.00	SMERA BB / Stable (Assigned)

***Annexure - Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	NA	NA	NA	9.00	SMERA BB / Stable (Reaffirmed)

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ABOUT SMERA

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