

Press Release

Rajasthan State Seeds Corporation Limited

February 20, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.140.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.140.00 Cr bank facilities of Rajasthan State Seeds Corporation Limited (RSSCL). The outlook is '**Stable**'.

Rajasthan State Seeds Corporation Limited (RSSCL) was incorporated under National Seed Project in 1978. It is administered under the control of Department of Agriculture, Government of Rajasthan. Currently, the Government of Rajasthan (GoR) holds 83.29 percent, National Seeds Corporation New Delhi (full ownership of Gol) holds 14.99 percent stake in RSSCL while the rest is held by the seed growers and is expected to support the company given its systemic importance to the state. The company organizes seed production programs through seed growers for more than 25 crops of cereals, oilseeds, pulses, cash crops among others and has installed 22 processing cum warehousing units across the Rajasthan state. RSSCL owns 14 farms across the state through which the registered farmers undertake processing of seeds. The company undertakes processing, packaging and distribution of certified seeds in the state of Rajasthan at subsidized rates. RSSCL sells its seeds under the brand name of 'Rajseeds'. The company has annual seed processing capacity of 20.09 lakh quintal and storage capacity of 10.01 lakh quintal.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RSSCL along with the support provided by GoR and Gol to arrive at the rating.

Key Rating Drivers

Strengths

- **Nodal agency to undertake price support operations for seeds with strong operational & financial support from State Government**

Rajasthan State Seeds Corporation Limited (RSSCL) was incorporated under National Seed Project in 1978. It is established under Government of India's, World Bank-aided National Seed Project Programme. Currently, the Government of Rajasthan state and National Seeds Corporation New Delhi (100 percent stake of Gol) owns 98.28 percent stake in RSSCL and is expected to support the company given its systemic importance to the state. The representatives of the related departments from the GoR are appointed as the Directors of RSSCL's board to oversee the operations. As agriculture is the backbone of the Indian economy, increasing productivity is one of the crucial agendas of the Government. RSSCL plays a vital role in the state of Rajasthan for executing agriculture development programmes. The State Government provides various subsidies in form of production subsidy thereby providing seeds to farmers at subsidized rate. RSSCL also receives capital subsidies for development of warehouses and purchase of farm equipments. The company has utilized aggregate of capital and revenue subsidy amounting to Rs.58.16 crore for FY2019 as against Rs. 45.7 crore in previous year.

RSSCL has large network of about 10000 growers and 22 processing cum warehousing units across Rajasthan state. These contract farmers produce the certified seeds in their own farms besides seeds production on the company's farms. The company has its own 14 farm base of about 700 hectare, annual storage capacity of 10.01 lakh quintal and processing capacity of 20.09 lakh quintal. RSSCL also receives capital subsidy under various program for development of farms. The company has diversified seeds portfolio and produces of more than 25 crops across both kharif and rabi seasons.

Acuite believes that the RSSCL will continue to benefit through strong parentage, its established market position and presence for over four decades in seed processing industry.

- **Healthy Financial Risk Profile**

RSSCL's credit profile is strengthened by a strong support from state and central government. The company's role is critical as it strives to protect the interest of farmers; further, it also facilitates the availability of seeds to farmers at reasonable prices. RSSCL has healthy financial risk profile marked by healthy net worth, low gearing and moderate debt protection metric. The net worth stood at Rs.132.11 crore as on March, 2019 which has witnessed sequential improvement from Rs.124.78 crore as on March, 2017. The accretion to net worth was mainly on account of steady operating profitability leading to higher accretion to reserves.

RSSCL has followed a moderate financial policy in the past as reflected by its peak gearing of 0.43 times over the last three years through 2017-19. The gearing of the company stood at 0.43 times as on March, 2019 as against 0.03 times in previous year. The total debt of Rs.56.27 crore as on March, 2019 was comprising of working capital borrowings. Further, the reliance on working capital has remained seasonal due to cyclical nature of agro products. The company's average working capital utilization remained around 78 percent during the last 10 months ended November, 2019. The total outside liabilities to tangible net worth ratio also stood at around 1.13 times as on March 31, 2019.

The debt coverage metrics remained moderate marked by interest coverage ratio (ICR) of 2.72 times for FY2019.

Acuite believes that RSSCL will maintain a healthy financial risk profile on back of the strong parentage of Government of Rajasthan, support in the form of subsidy and no major external debt exposure.

Weaknesses

- **Exposed to risk of agro-climatic conditions**

RSSCL has a diversified seeds portfolio and produces over 25 crops across both Kharif and Rabi seasons. The company's business is seasonal and exposed to agro climatic risks and the production is highly dependent on rainfall and other climatic conditions required for the cultivation of various crops. Any adverse agro-climatic conditions can affect the overall demand for seeds from farmers which may result into inventory pile-up. Also, the company is exposed to uncertainty relating to production on account of agro-climatic risks, which may hamper crop output and quality. Acuite believes that company's ability to scale up its operations considering the challenging operating environment along with managing working capital cycle will remain a key rating sensitivity factor.

- **Vulnerability to timely receipt of subsidies**

RSSCL is supported by the State and Central Government in the form of various subsidies including revenue, production and capital subsidy under several government promoted programs. The company receives subsidies on seeds, farm equipment, as well as assistance for various production programmes. Usually subsidies for a financial year are received in the subsequent financial year. However, any significant delays in the receipt of the same can adversely impact the company's liquidity profile. Acuite believes that the timely allocation of the budget and timely receipt of the subsidies from GoR will reduce the dependency on working capital limits.

Rating Sensitivities

- Credit profile of Rajasthan Government and timely support in form of subsidy to RSSCL
- Timely realization of subsidy from GoR

Material Covenants

None

Liquidity: Adequate

RSSCL has adequate liquidity position drawn from the support from Government of Rajasthan (GoR) in form of subsidies. The company does not have any long term debt. Usually, the company for a financial year are received in subsequent year. RSSCL's working capital requirements vary during the year, dependent on the seed procurement requirement during the season. The peak utilization of working capital is required from May to November. The average working capital utilization remains around 78 percent for the last 10 months ended November, 2019.

Outlook: Stable

Acuite believes that RSSCL will maintain a 'Stable' credit profile over the near to medium term on the back of ongoing financial and managerial supported from GoR. The outlook may be revised to 'Positive' in case of significant and sustainable growth in its revenue while maintaining profitability. The outlook may be revised to negative in case of deterioration in financial risk profile or delay in realization of government subsidies

thereby impacting liquidity profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	295.89	265.47
PAT	Rs. Cr.	4.03	1.08
PAT Margin	(%)	1.36	0.41
Total Debt/Tangible Net Worth	Times	0.43	0.03
PBDIT/Interest	Times	2.72	1.66

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- State Government Support - <https://www.acuite.in/view-rating-criteria-26.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	140.00	ACUITE BBB+ /Stable

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About Acuité Ratings & Research:

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