

Press Release

Rajasthan State Seeds Corporation Limited

May 07, 2021



Rating Reaffirmed

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

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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**'.

The rating reaffirmation draws comfort from long track record of operations and experienced management, improvement in operating and profitability margins, improvement in revenues in FY2021, comfortable financial risk profile, adequate liquidity position marked by adequate cash accruals against nil repayment obligations & judicious utilization of the working capital facilities and implicit support provided by Government of Rajasthan (GoR) and National State Seeds Corporation Limited (NSSCL). The rating, however, continues to remain constrained on account of working capital intensive operations marked by high inventory levels and receivable levels.

About the Company

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 State Seeds Corporation Ltd., New Delhi (full ownership of GoI) 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 20.74 lakh quintal and storage capacity of 10.21 lakh quintal.

Analytical Approach

Acuité has considered a standalone view of the business and financial risk profile of RSSCL along with the implicit support provided by GoR and GoI 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 State Seeds Corporation Ltd., New Delhi (100 percent stake of GoI) 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 the 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.122.22 crore for FY2020 as against Rs.58.14 crore in FY2019. 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 10.21 lakh quintal and processing capacity of 20.74 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.

Acuité 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. The financial risk profile of RSSCL is healthy marked by adequate net worth, moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW), and moderate debt protection metrics. The gearing (debt to equity ratio) stood at 0.44 times as on March 31, 2020 as against 0.43 times as on March 31, 2019. TOL/TNW stood at 1.14 times as on March 31, 2020 as against 1.13 times as on March 31, 2019. Tangible net worth of the company stood comfortable at Rs.137.93 crore as on March 31, 2020 as against Rs.132.11 crore as on March 31, 2019. The total debt of Rs.60.52 crore as on March 31, 2020 mainly consists of short-term debt of Rs.60.52 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt stood moderate at 2.37 times and 0.15 times respectively in FY2020; while DSCR stood at 2.08 times in FY2020.

Acuité 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

- **Working capital intensive operations**

RSSCL's working capital operations are intensive marked by Gross Current Asset days (GCA) of 410 days in FY2020 against 302 days in FY2019. The inventory days stood at 76 days in FY2020 against 58 days in FY2019. Further, the inventory holding policy followed by the company is generally 2 years. The debtors' days stood at 95 days in FY2020 against 60 days in FY2019. The creditors' days stood at 61 days in FY2020 against 51 days in FY2019. As and when the company received payment from the government, subsequently the payments are made to their suppliers. The company usually gets payment from the government in a year. If the government does not have budget to allocate in a year, then the payments are received by the company in the next budget. RSSCL's reliance on working capital has remained seasonal due to cyclical nature of agro products. However, working capital bank lines remained moderately utilized at ~70-80 percent for last trailing 12 months ended March, 2021.

Acuité believes that RSSCL's working capital intensive operations are expected to be mitigated by the availability of adequate liquidity over the medium term as well as presence of strong parentage of GoR and Gol.

- **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.

Acuité 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.

Acuité 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

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

- 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. The company generated cash accruals in the range of Rs.3.28 crore – Rs.9.64 crore during the last three years through FY2018-20 against nil repayment obligations. It is expected to generate cash accruals in the range of Rs.10.94 crore – Rs.22.08 crore over the medium term, against nil repayment obligations. Usually, the subsidy 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 working capital limits remained moderately utilized at ~70-80 percent for last trailing 12 months ended March, 2021. Unencumbered cash and bank balances stood at Rs.16.95 crore as on March 31, 2020 with a current ratio of 1.68 times in the same period.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that RSSCL will maintain a 'Stable' credit profile over the near to medium term on the back of ongoing financial and managerial support 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	231.83	297.45
PAT	Rs. Cr.	6.41	7.13
PAT Margin	(%)	2.76	2.40
Total Debt/Tangible Net Worth	Times	0.44	0.43
PBDIT/Interest	Times	2.37	3.29

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

Not Applicable

Any other information

Not Applicable

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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-Feb-2020	Cash Credit	Long Term	140.00	ACUITE BBB+/ Stable (Assigned)

***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 (Reaffirmed)

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About Acuité Ratings & Research:

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