

Press Release

Rajasthan State Seeds Corporation Limited

August 01, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	140.00	ACUITE BBB+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	140.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs.140.00 crore 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, satisfactory financial performance in FY2021 with improvement in revenue in FY22 (Prov.), 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.

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.

Analytical Approach

Acuite has considered a standalone view of the business and financial risk profile of RSSCL

along with the implicit 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 State Seeds Corporation Ltd., 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 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.79.62 crore for FY2022 (Prov.) as against Rs.88.35 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 annual production 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.

Satisfactory financial performance in FY21, with improvement in revenue in FY22.

The company has reported total operating income of Rs. 271.0 crore during FY21 as against Rs.231.83 crore in FY20, thereby reporting y-o-y growth of 16.89%. The improvement in total operating income is mainly on account of better Rabi season during Sept-March, wherein the company reported total operating income of Rs.200.20 crore during H2FY21 vis-à-vis Rs. 148.73 crore in H2FY20. The revenue further increased to Rs.272. 65 crores, led by increased TOI in H1FY22. In line with revenue, the operating profit also improved marginally to Rs.21.48 crore in FY21 as against Rs.19.37 crore in FY20. The net profit, also increased to Rs. 10.25 crore in FY21 vis-à-vis Rs.6.41 crore in FY20 due to lower interest cost. The net profit margin also improved to 3.78% in FY21 over 2.76% in FY20. The total operating income in FY22 is expected to remain at similar level at Rs.271.0 crore and the company is estimated to report net profit of Rs.12.75 crore during FY22.

Acuite believes that company's ability to generate revenue is dependent on climatic conditions and better yield from the seeds sown.

Healthy financial risk profile

The capital structure of the company as represented by debt-equity ratio continues to remain below unity and improved to 0.07 times as on March 31, 2021 as against 0.44 times as on March 31, 2020. The outstanding debt remained at Rs.11.03 crores as on March 31, 2021 as against Rs. 60.52 crore as on March 31, 2020. The debt component of the company solely comprises of working capital borrowings. The improvement in debt-equity is mainly on account of accretion of profit to reserves. The interest coverage ratio also improved to 4.01 times in FY21 as against 2.37 times in FY20, led by decline in interest cost coupled with increase in operating profit during FY21. Similarly, debt-EBITDA also improved to 0.51 times in FY21 vis-à-vis 3.03 times in FY20. The net cash accruals to total debt also improved to 1.15 times in FY21. The company does not plan to avail any additional debt going forward and hence, the financial risk profile of the company is expected to improve going ahead.

Weaknesses

Working capital intensive nature of operations

The company operates in working capital intensive nature of operations as represented by Gross Current Asset days of 309 days in FY21 as against 410 days in FY20. The higher GCA days is mainly on account of higher inventory days of 104 days in FY21 as against 76 days in FY20. The company maintains seed inventory of 9-11 months before sowing it for germination. Further, the outstanding debtors as on March 31, 2022 (as per debtors aging) remained at 52.57 crore majorly pertains to Krishi Vibhag. The company is expected to realize the same by December 2022, when the budget is released by Government. If the government does not have budget, they receive payment in the next budget.

The company pays to supplier as soon as the amount is realized from debtors. The working capital utilization remained at moderate level at ~43% for the past 12 months ending April 2022.

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 programs. 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.

ESG Factors Relevant for Rating

Not Applicable

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 Position: Adequate

Adequate

The liquidity profile of the company remains at adequate level with net cash accruals of Rs. 12.71 crore during FY21 as against Rs.9.12 crore in FY20. The company does not have any debt repayment obligation. The current ratio continues to remain above unity at 1.98 times as on March 31, 2021. The company also maintains cash and bank balance of Rs.18.69 crore as March 31, 2021.

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 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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	271.00	231.83
PAT	Rs. Cr.	10.25	6.41
PAT Margin	(%)	3.78	2.76
Total Debt/Tangible Net Worth	Times	0.07	0.44
PBDIT/Interest	Times	4.01	2.37

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 May 2021	Cash Credit	Long Term	140.00	ACUITE BBB+ Stable (Reaffirmed)
20 Feb 2020	Cash Credit	Long Term	140.00	ACUITE BBB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	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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