

Press Release
Rajasthan State Seeds Corporation Limited
October 19, 2023
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	-	-

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**'.

Rationale for Rating Reaffirmation

The rating reaffirmation takes into account the improved financial risk profile, working capital and liquidity of the company. The Total Tangible net worth stood at Rs. 165.38 Cr as on 31st March 2022(Prov.) as against Rs. 148.32 Cr a year earlier. Net worth of the company continuously improved due to profit accretions. It improved from Rs. 132.11 crore in FY 19 to Rs 165.38 crore FY 22(Prov.). Debt position of the company is nil on March 31, 2022(Prov.) and gearing position is nil. Interest coverage ratio stood strong at 9.60 times for FY2022 (Prov.) as against 4.01 times in FY2021. Likewise, Debt Service coverage ratio stood strong at 7.36 times for FY2022 (Prov.) as against 3.35 times in FY2021. The GCA Days of the company improved to 301 Days in FY2022(Prov.) as against 309 Days in FY2021. Coupled to this. Company generated cash accruals of Rs. 20.35 crore for FY2022 (Prov.) and no debt repayment obligation. Current Ratio stood at 2.81 times as on 31 March 2022(Prov.) as against 1.98 times in the previous year. Cash and Bank Balances of company significantly improved and stood at Rs 54.60 crore as on March 31, 2022(Prov.)

The rating is however constrained on account of working capital intensive nature of operations, Moderation in Business Risk profile in FY 23. Acuite believes that the company's ability to grow its scale of operations and profitability while maintaining a healthy capital structure remains a key rating indicator.

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 83.37 percent, National State Seeds Corporation Ltd., New Delhi (full ownership of GoI) holds 15 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.

Standalone (Unsupported) Rating

Acuite BBB-/Stable

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 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. RSSCL has large network of about 5000 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. 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.

Business Risk Profile

RSSCL maintained its operating income in FY 22(Prov.) and stood at 278.20 crore as against Rs. 271 crore for FY2021. The operating profit margin of the company increased by 283 bps in FY 22(Prov.). Operating Profit Margin of company stood at 10.76% in FY2022(Prov.) as against 7.93% in FY2021 likewise the net profit margin of the company almost doubled and stood at 6.39 percent in FY2022(Prov.) as against 3.78 percent in FY 21. ROCE of the company stood at 17.62 percent in FY2022 (Prov.).

Operating income from sale of certified seeds, Foundation and breeder seeds improved in FY 23(Est.) in comparison to FY 22(Prov.) however overall operating income stood at Rs 255.47 crore in FY 23(Est.) which is lower by ~4.75 percent on average of Rs ~268 crore over the period 2021 to 2023.

Financial Risk Profile- Strong

Company has strong financial risk profile marked by healthy net worth, comfortable gearing and strong coverage indicators. The Total Tangible net worth stood at Rs. 165.38 Cr as on 31st March 2022(Prov.) as against Rs. 148.32 Cr a year earlier. Net worth of the company continuously improved due to profit accretions. It improved from Rs. 132.11 crore in FY 19 to Rs 165.38 crore FY 22(Prov.). Same is further expected to improve in near medium term.

Company follows conservative leverage policy marked by low gearing. Debt position of the company is nil on March 31, 2022(Prov.) and gearing position is nil. Company made a significant change in its debt position over 2019 to 2022. Company reduced its reliance on

working capital limits from Rs 56.27 crore in FY 2019 to Nil working capital utilization at the end of FY 22.

Coverage indicators witnessed fluctuations over 2019 to 2022 however same remains at comfortable level. Interest coverage ratio stood strong at 9.60 times for FY2022 (Prov.) as against 4.01 times in FY2021. Likewise, Debt Service coverage ratio stood strong at 7.36 times for FY2022 (Prov.) as against 3.35 times in FY2021. Coverage indicators in FY 22 improved due to increase in profitability margin and low finance cost. Coverage Indicators are expected to witness dip but remain at comfortable level.

Weaknesses

Working capital operations- Improved yet Intensive

The company operates in working capital intensive nature of operations as represented by Gross Current Asset days of 301 days in FY22 (Prov.) as against 309 days in FY21. The higher GCA days is mainly on account of other current assets followed by inventory & Debtors. Inventory days stood at 70 days in FY22 (Prov.) as against 104 days in FY21. The company maintains seed inventory of 9-11 months before sowing it for germination. Debtor Days stood at 59 days for FY 22(Prov.) as against 41 days in FY 21.

The working capital utilization remained low level at ~18% for the past 12 months ending June 23.

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

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.

All Covenants

None

Liquidity Position

Adequate

Company has adequate liquidity marked by net cash accruals to its maturing debt obligations, current ratio, cash and bank balance. Company has shown improvement trend in generation of cash accruals. Company generated cash accruals of Rs. 20.35 crore for FY2022 (Prov.) and no debt repayment obligation. Current Ratio stood at 2.81 times as on 31 March 2022(Prov.) as against 1.98 times in the previous year. Working capital limits are utilized at ~18 per cent during the last twelve months ended June 23 leaving additional cushion in working capital limits to meet contingencies. Cash and Bank Balances of company significantly improved and stood at Rs 54.60 crore as on March 31, 2022(Prov.)

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

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	278.20	271.00
PAT	Rs. Cr.	17.78	10.25
PAT Margin	(%)	6.39	3.78
Total Debt/Tangible Net Worth	Times	0.00	0.07
PBDIT/Interest	Times	9.60	4.01

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector:- <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
01 Aug 2022	Cash Credit	Long Term	140.00	ACUITE BBB+ Stable (Reaffirmed)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	140.00	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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