



Press Release
PALLISHREE LIMITED
May 23, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	115.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	0.40	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	115.40	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE t riple B minus**) and short term rating of **A3** (read as **ACUITE A three**) to the Rs. 115.40 Cr bank facilities of Pallishree Limited. The outlook is '**Stable**'.

Rating for the rationale

The ratings assigned derive strength from the experience of the promoters along with long track record of operations of more than seven decades. Further, the rating factors in the established brand name across Eastern India and technical collaboration with renowned research institutes/universities. The rating also considers the strong distribution network of the company along with healthy financial risk profile. However, the above-mentioned strengths are partially offset by working capital intensive nature of operations leading to high reliance on short term bank borrowings with limits being fully utilized. Further, the rating is also constrained by the susceptibility of the business to changes in government regulations, monsoon and intense competition and susceptibility of operating margins.

About the Company

Pallishree Limited (PL) was founded in 1948 by late Balai Krishna Roy in Arambagh, West Bengal. Initially, the company traded in paddy and indigenous organic fertilizers in West Bengal and surrounding areas. In 1985, PL diversified into the business of research, production, and selling of high yielding variety (HYV) of hybrid pollinated seeds of various cereals (paddy, maize, wheat) and vegetables (potato, spinach etc). The company's Nursery and Horticulture division, established in the late 1980s, is engaged in facilitating the growth of quality medicinal and aromatic plants for landscaping and greening purposes. PL owns two nurseries in Arambagh and one in Bankura, all located in West Bengal. The company also has a small animal husbandry division that supplies dairy products. The company has a strong presence in the agriculture sector in Eastern India, with a focus on sustainable farming practices, research and development, and the production and marketing of quality seeds and organic products.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of PL while arriving at the rating.

Key Rating Drivers

Strengths

Experienced promoter with long track record of operations and established brand

name across Eastern India

Pallishree Limited is currently managed by Mr. Baibhab Kumar Roy. The company has an active track record of operations of more than seven decades. Mr. Roy has more than a decade of experience in the seed industry. By virtue of being in agricultural business for over six decades, the company has an established brand image across Eastern India and is a leading seed (mainly paddy) manufacturer in the region. PL markets its seeds under the brand name 'Sufala' - which has earned its trustworthiness among farmers for its consistent quality over the years. The company on combined basis sells more than 90 varieties of certified paddy seeds in the market. The experience of the promoters and long track record is also reflected through stable scale of operations over the year with revenue recorded of Rs 540.31 Cr in FY 2022 as against Rs 514.46 Cr in FY 2021 and Rs 504.51 Cr in FY 2020. Further, the revenue of the company for 9 Months FY 2023 stood at Rs 467.65 Cr. The majority of the revenue approx. 98% is constituted from seed industry. Further, the company has an extensive distribution network with more than 400 dealers spread across 6 states in Eastern and Central India. This has enabled the group to develop client base of more than 15,000 farmers in hybrid paddy seeds. Acuité derives comfort from the vast experience of the management along with extensive distribution network and believes this will continue to benefit the company going forward, resulting in steady growth in the scale of operations.

In-house R&D and technical collaboration with research institutes/universities

PL has in-house R&D centers at Arambagh, Bankura, and Birbhum in West Bengal. These centers are essential for carrying out research and development on new seed development and improving the quality of existing seeds. The company has collaborations with leading technological institutes across India and abroad. This collaboration ensures that the company has access to the latest technology and research in the field, which can be utilized in developing new seed varieties and improving existing ones. Furthermore, owning a tissue culture laboratory is a significant advantage for the company as it aids its R&D division. Tissue culture techniques allow the company to produce large quantities of uniform and disease-free plantlets in a controlled environment. This enables the company to develop new seed varieties and improve the quality of existing ones with greater precision and efficiency. Overall, PL's investments in research and development demonstrate its commitment to innovation and ensuring that it remains a leader in the agriculture sector in Eastern India.

Healthy financial risk profile

The financial risk profile of the company is healthy marked by healthy net worth, low gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.393.54 Cr as on March 31, 2022 from Rs.352.66 Cr as on March 31, 2021 due to accretion of profits to the reserves. The company follows a conservative financial risk policy reflected through its peak gearing of 0.36 times in last three years. The gearing of the company stood at 0.30 times as on March 31, 2022 as compared to 0.35 times as on March 31, 2021 and 0.36 times as on March 31, 2020. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.34 times as on 31st March, 2022 as against 0.39 times as on March 31, 2021 and 0.41 times as on March 31, 2020. Moreover, adequate profitability and low debt levels led to improvement in the coverage ratio, Interest Coverage Ratio and Debt Service coverage ratio stood at 4.39 times as on March 31, 2022 as against 4.41 times as on March 31, 2021 and 4.28 times as on March 31, 2020. Acuité believes that financial risk profile may continue to remain healthy over the medium term on the back of a surge in earnings and no major debt-funded capex plans.

Weaknesses

Working capital intensive nature of operations

The company has a working capital-intensive business model, with a majority of funds being tied up in inventory and debtors. The company has a long inventory holding period, which stood at 158 days in FY22, compared to 136 days in FY21. Additionally, the collection period also increased to 206 days in FY22, as against 198 days in FY21. In contrast, the creditors' period increased marginally from 10 days in FY20 to 11 days in FY22. As a result, the working

capital cycle and gross current assets days also increased to 354 days and 350 days, respectively, in FY22, compared to 325 days and 339 days, respectively, in FY21. Acuite believes that the elongated inventory period is due to several interlinked processes involved in seed production and processing, along with the high year-end inventory requirement to support the cropping pattern. Furthermore, the company's product portfolio is primarily dominated by paddy, for which there are generally three crops in West Bengal, further contributing to the working capital requirement. Acuite believes that the working capital requirement is likely to remain similar in the medium term.

Highly regulated nature of industry

The seed industry in India is regulated by the Ministry of Agriculture and Farmers Welfare. The Seeds Act, 1966 and Seeds Rules, 1968 provide the regulatory framework for seed production, certification, sale, and import and export of seeds. The government regulates the quality of seeds, and all seed producers need to obtain a seed license. Seed producers are required to maintain certain quality standards for their products, and the seeds need to be tested and certified by government-approved testing agencies. The use of genetically modified seeds is also subject to regulatory approval from the Genetic Engineering Appraisal Committee (GEAC).

Susceptibility of crop production to agro-climatic conditions and concentration of paddy seed in the portfolio

The company's business is seasonal and dependent on rainfall and other climatic conditions. This exposes the company to the risk of crop failure and revenue loss. The agricultural industry is always exposed to these risks, and companies operating in this sector need to have risk management strategies in place to mitigate these risks. It is also important to note that the seed portfolio of the company is dominated by paddy, which contributes nearly 80% of the revenue generated from the seed division. This concentration of revenue from a single crop poses a risk to the company, as any adverse impact on paddy crop production could lead to a significant decline in revenue. In addition, competition from the unorganized sector players is a risk that the company needs to consider. The unorganized sector players may have lower costs and may be able to offer products at a lower price point, which could affect the company's market share and profitability. Overall, it is essential for the company to have effective risk management strategies in place to mitigate the risks associated with its business.

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.

Material covenants

None

Liquidity Position Stretched

The company's liquidity position is stretched as the fund-based limit remains fully utilized over nine months ended March, 2023. There were instances of overutilization in the past, though the same were regularized within 30 days. Nevertheless, they have sufficient net cash accruals of Rs.41.57 Cr as on March 31, 2022 as against nil long term debt repayment the same period. The current ratio stood comfortable at 3.90 times as on March 31, 2022 as compared to 3.54 times as on March 31, 2021. The working capital cycle of the company is intensive marked by Gross Current Assets (GCA) of 350 days as on 31st March 2022 as compared to 339 days as on 31st March 2021. Going forward, Acuite believes the liquidity position of the company will be sustained marked by enhanced net cash accruals.

Outlook: Stable

Acuité believes that PL will maintain a 'Stable' outlook over the medium term on account of its healthy financial risk profile, long track record of operations and established brand name across Eastern India. The outlook may be revised to 'Positive' in case of significant improvement in scale of operation coupled with improvement of its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity or financial risk profile due to stretched receivables.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	540.31	514.46
PAT	Rs. Cr.	40.88	38.99
PAT Margin	(%)	7.57	7.58
Total Debt/Tangible Net Worth	Times	0.30	0.35
PBDIT/Interest	Times	4.39	4.41

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Manufacturing Entities: <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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.20	ACUITE A3 Assigned
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	71.33	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	43.67	ACUITE BBB- Stable Assigned
Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.20	ACUITE A3 Assigned

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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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