

October 08, 2013

Facility	Amount (Rs. Crore)	Rating
Cash Credit	10.00	SMERA B/ Stable/ Assigned

SMERA has assigned a rating of **'SMERA B' (read as SMERA B)** to the Rs.10.00 crore long-term facility of Mark Agri Genetics Private Limited (MAGPL). The outlook is **'Stable'**. The rating is primarily constrained by the company's limited track record of operations, high leverage and stretched working capital cycle. The rating is also constrained by the company's agricultural commodities business, which is highly regulated, competitive and susceptible to seasonal price fluctuations. However, the rating is supported by the company's experienced management, favourable location and well-established marketing network (shared with group entities).

MAGPL, incorporated in May 2011, is engaged in processing, developing and marketing of agricultural seeds. MAGPL initially outsourced the seed processing activity. However, in February 2013, the company commenced in-house processing of seeds. MAGPL's main products include soyabean and cotton seeds, which are sold under the brand names 'Soya Laxmi 101' (soyabean seeds) and 'Adi Laxmi' (cotton seeds).

MAGPL has high leverage with overall debt-to-equity ratio at 29.88 times (provisional) as on March 31, 2013. The company has a low net worth of Rs.0.34 crore (provisional) as on March 31, 2013 due to accumulated losses in the initial stage of operations and high borrowings for working capital requirements. MAGPL's total debt of Rs.10.20 crore (provisional) as on March 31, 2013 includes interest-free unsecured loans of Rs.4.50 crore from related parties. MAGPL's working capital loan is secured by 13 residential apartments owned by the company's promoters. MAGPL's operations are highly working capital-intensive as the company maintains a high inventory of seeds to meet the relatively high demand in the sowing season. MAGPL has a stretched working capital cycle of 199 days in FY2012-13 (provisional) due to high inventory holding of 186 days (provisional) in FY2012-13.

MAGPL's seasonal business leads to concentration of revenues in the March to July period, which is the pre-sowing season of soyabean and cotton crops. The company's profitability is vulnerable to fluctuations in agri-commodity prices, which are linked to domestic output, global supply, government regulations and weather conditions. Moreover, MAGPL faces intense competition from several small and medium-sized players. MAGPL is engaged in the seed production and marketing business, which is regulated under The Seeds Bill, 2004.

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The company is strategically located in Amravati, Maharashtra — a major soyabean and cotton sowing region of the country. MAGPL has two group entities (United Crop Care and Focus Biotech) engaged in production of bio-fertilizers. MAGPL derives marketing support from its group entities' widespread marketing network, which comprises about 4,000 to 5,000 dealers across Karnataka, Maharashtra, Madhya Pradesh, Orissa, Rajasthan, Gujarat and Chhattisgarh. MAGPL has an experienced management team. Mr. Pawankumar Bajaj and Mr. Chandra Sekhara Reddy Pisati, Directors of MAGPL, have a decade of experience (derived through other family-owned businesses) in the agriculture sector.

Outlook: Stable

SMERA believes the outlook on MAGPL's rated facilities will remain stable over the medium term. The company will continue to benefit from its experienced management and location advantage. The outlook may be revised to 'Positive' in case the company registers a sustained improvement in profit margins while maintaining a healthy revenue growth or in case the company achieves better working capital management. Conversely, the outlook may be revised to 'Negative' in case of a steep decline in the company's profit margins or in case of a significant deterioration in the company's capital structure on account of larger-than-expected working capital requirements or major debt-funded capital expenditure.

About the company

MAGPL was incorporated on May 30, 2011 by Mr. Pawan Kumar Bajaj and Mr. P. Chandra Sekhara Reddy Pisati. The company is engaged in processing, developing and marketing of certified agricultural seeds used for sowing agriculture crops. The company's main products include soyabean seeds and Bt cotton seeds, which are sold under the brand names 'Soya Laxmi 101' (soyabean seeds) and 'Adi Laxmi' (cotton seeds). The company also processes *moong dal* seeds and *urad dal* seeds. MAGPL has a grading and processing unit with an installed capacity of 2,19,000 quintals per annum in Amravati, Maharashtra.

For FY2012-13, MAGPL reported PAT of Rs.0.24 crore (provisional) on operating income of Rs.7.18 crore (provisional). In the first quarter of FY2013-14, MAGPL registered sales of Rs.10.95 crore (as per sales tax returns). The company's net worth stands at Rs.0.34 crore as on March 31, 2013.

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Mark Agri Genetics Private Limited (MAGPL)

*Rating
Rationale*

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