JK Agri Genetics Limited (Revised)

November 5, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	84.75 (Enhanced from 82.75)	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short Term Bank Facilities	5.00	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total Bank Facilities	**89.75 (Rs. Eighty-Nine Crore and Seventy-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of JK Agri Genetics Limited (JKAGL) factor in improvement in its operational performance and financial risk profile with further strengthening of capital structure during FY21 (refer to period from April 01 to March 31) marked by judicious product mix, higher contribution from profit yielding vegetable seeds and growing exports which has been brought about by a change in the top management having considerable experience in the seeds industry. The ratings continue to draw strength from its strong parentage, being a 67.42% subsidiary of Bengal & Assam Company Limited {BACL – rated CARE AA- (Is); Stable} which in turn is a part of JK Group (East), and strategic importance of JKAGL for the overall group which is evident from equity infusion in the past two fiscals, thereby leading to strengthening of JKAGL's capital structure and improved liquidity profile and appointment of key positions in the company to turnaround operational performance.

Further, the ratings continue to derive strength from its experienced promoter group, established brand name with pan-India distribution network, diversified product mix and strong in-house R&D (research and development) division along with technical collaboration with leading institutes, comfortable capital structure and debt coverage indicators. These rating strengths, however, are constrained by its elongated operating cycle owing to high pending dues from various state governments, regulated nature of the seed industry and vulnerability of sales to seasonality and agro-chemical conditions.

<u>Rating Sensitivities</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Ability of the company to increase its scale of operations by more than 20% on a sustained basis going forward amidst seasonal nature of business and enhance its profitability margins with increase in the sales.
- Ability of the company to reduce its dependence on the sales from the first quarter of the financial year and introduce strategies to combat the seasonality of business.
- Ability of the company to manage its working capital requirements while timely realizing its debtors and dues pending from the state governments.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin of more than 3% from the current envisaged levels on a sustained basis going forward.
- Any increase in the collection period leading to elongation in the operating cycle of more than 300 days on a sustained basis.
- Any sizeable capex undertaken by the company adversely impacting the capital structure with the overall gearing exceeding 1x.
- Any change in the shareholding pattern, thereby leading to decline in the stake held by BACL by less than 51%.

Detailed description of the key rating drivers

Key Rating Strengths

Improved operational performance

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

The improvement in the operational performance of the company is reflected by significant growth in its total operating income and rebound in the profitability during FY21, owing to the operational synergies achieved with change in the top management. The new management undertook various initiatives such as rationalization of the product portfolio and segmentation of markets, elimination of non-profitable territories, focus more on high value and high margin hybrid seeds and increased focus on export sales. In line with the same, the company introduced certain new varieties of vegetable seeds into the overall portfolio which led to the increased contribution of this high-profit yielding segment to the total sales to ~24% in FY21 vis-à-vis only ~16% during FY20. Also, the company increased its global footprints through export sales, whereby it recorded y-o-y growth of ~30% during FY21. All this led to the company reporting operational profits of Rs. 20.95 crore during FY21 (PY: operational loss of Rs.3.66 crore) with PBILDT margin of 9.33%. Also, the company reported PAT of Rs.7.17 crore as against net loss in FY20. Further, in line with the management's strategy of improving the logistics and supply chain which lead to early placement of products into the market, and also changing the packaging of the product to emphasize on the brand name, the company reported 24% growth in the top-line which stood at Rs.224.51 crore during FY21.

Current Year Performance: In Q1FY22 (refers to the period from April 01 to June 30), JKAGL has recorded top-line of Rs.133.84 cr. (Q1FY21: Rs.125.19 crore) with 7% y-o-y improvement alongside 54% achievement of the projected sales.

Experienced Promoter group and long track record of operations

JKAGL benefits by being a part of the JK Group (East), which is more than 100 years old and employs more than 50,000 people across the group**.** The group has diversified business interests including cement (through its group company JK Lakshmi Cement Ltd (JKLC) (CARE AA (FD); Stable/CARE A1+)), auto ancillary (through its group company JK Tyre & Industries Ltd (CARE A; Stable/CARE A1)), paper (through its group company JK Paper Ltd), and fan belts (through its group company JK Fenner (India) Limited).

JKAGL has an experienced team of qualified management personnel having over two decades of experience in the seeds production business. The Board of JKAGL consists of eight non-executive directors and two executive directors, headed by Mr Bharat Hari Singhania. During FY20, there had been a change in the management of the company, whereby the Board of directors appointed Dr. Gyanendra Shukla as President and Director (CEO) of the company w.e.f May 23, 2019. The new management team initiated various measures to improve efficiencies in the structure and operational processes of the company, including rationalization of the product portfolio, thrust on digital marketing, strengthening planning and forecasting and upgrading the logistics and supply chain operations of JKAGL.

Strong Parentage

BACL is the investment holding company, holding significant investments in the form of listed shares of major JK group of companies, thereby providing it with adequate financial flexibility. As against the book value of listed investments of Rs.867.03 crore as on March 31, 2021, the market value of such holdings stood at Rs.7,500 crore as on October 27, 2021.

Strong in-house R&D division and technical collaboration with leading institutes

JKAGL is well equipped with R&D facilities and a biotech lab with established breeding facilities for various field crops and vegetable seeds. It has a team of over 50 scientists working across 5 breeding research centres and 23 multi-location trial centres covering all agro-climatic zones of India. In addition to this, JKAGL also has several collaborations with reputed and leading research driven institutes to contribute to its research activities. During FY21, the company spent Rs. 13.14 cr. (~6% of total operating income) on research & development, which remained at the similar levels of Rs. 13.17 cr. (~7 of total operating income), spent during FY20. During FY21, the R&D teams of JKAGL launched around 28 new hybrids in different field crops and vegetable seeds, thereby yielding a turnover of ~Rs.18 crore.

Established brand name and distribution network with growth in export revenues

The 'JK' brand name is well known across the country. 'JK seeds' is also an established brand name among the farming community. JKAGL has an extensive dealer-distributor network spread across all the major seed markets in India. The company sells its products across pan India with distribution network of more than 18 C&F agents while covering around more than 1500 distributors/wholesalers and more than 20,000 retailers. It also has tied up with few multi-nationals as well as strong domestic companies for co-marketing and co-promotion.

The company is increasing its presence across the globe by exporting wide array of products and it has a dedicated team for promotion of exports. JKAGL has been catering to the international markets in South Asia and Africa by exporting various field crops. During FY21, JKAGL witnessed ~30% increase in revenue from exports to Rs. 21.88 cr. (9.75% of total revenues) as compared to Rs. 16.80 cr. (9.31% of total revenues) during FY20. The increased international expansion helps JKAGL to mitigate the cyclicality and climatic risk of a specific country or region, while providing additional growth avenues.

Diversified product portfolio

JKAGL deals in wide range of products involving cotton, field crops like paddy, maize, jowar, bajra and vegetables, providing the company with a distinct competitive advantage. Such portfolio, besides offering diversity also offers strong value proposition from cyclicality and risk mitigation perspective. The company's portfolio is suitable for both the Kharif and Rabi seasons. During FY21, the new varieties were launched in the vegetable seeds segments, namely, brinjal, beans, onion and beetroot, thereby the contribution of this segment to the overall sales increased and stood at Rs.53.70 crore in FY21 (contributed ~24% to the total sales) as against Rs.29.74 crore in FY20 (contributed ~16% to the total sales) while the sales in all other segments remained almost stagnant except for cotton whereby the contribution to the total sales remained lower due to the COVID-19 driven subdued demand pattern.

Comfortable financial risk profile

The promoter group of the company infused total funds to the tune of Rs.50 crore in the past two fiscals, out of which Rs.32.47 crore was received by JKAGL in FY20 and remaining Rs.17.54 crore was received in FY21. This strengthened the capital structure of the company, whereby the overall gearing improved and stood at 0.23x as on March 31, 2021 (PY: 0.43x). The same also improved backed by accretion of profits, repayment of long-term debt and lower utilization of working capital limits. Further, the debt coverage indicators also improved with interest coverage ratio and total debt/GCA of 3.25x and 2.46x respectively (PY: NM as net losses).

Key Rating Weaknesses

Elongated Operating Cycle

JKAGL has product range which includes major kharif and rabi crops along with several hybrid seeds for vegetables which are sown in between the seasons. However, the major concentration of sales remains in the Kharif seasons, which include cotton and paddy seeds. Therefore, a majority of the company's sales happen in the quarter ending June making the business operations seasonal (~56% of TOI for the FY21 booked in Q1FY21) which results in high inventory holding in the March quarter. Also, the company is focusing on more hybrids for new improved attributes for which the company has to maintain sufficient inventory. Thus, the company's inventory holding remains high. However, owing to the product portfolio rationalization undertaken by the management, the inventory holding reduced and stood at 228 days as on March 31, 2021 (PY: 259 days). Further, JKAGL ensures adequate availability of seeds with carry and forward agents and distributors to ensure ample sales. In line with the same, the finished seeds are also sold across to dealers/distributors by extending credit periods. The company takes 50% advance from the export customers and also from certain private players in the domestic market. In FY21, the debtor days improved and stood at 115 days as on March 31, 2021 (PY: 152 days) due to the faster collection from dealers.

The company has pending dues owing to sales to various state government departments (Rs. 18.24 cr. with Rajasthan government as on March 31, 2021, included in total debtors of the company). With regards to dues to Rajasthan government, the materials supplied met all the quality specifications and was accepted by the government, thus the receivable is considered good and recoverable. The other receivables are majorly pertaining to the sales made to the government clients only including Punjab and Madhya Pradesh state governments.

Seasonality and vulnerability of sales to agro-climatic conditions

The major sales concentration of JKAGL is in the quarter ending June which accounts for around 55%-65% of the total sales (~56% in FY21). Furthermore, the sales and profitability of JKAGL are vulnerable to agro-climatic conditions prevailing in the country. Due to the lack of adequate irrigation facility in the country, the sales and consumption of the seeds is highly dependent on the prevailing monsoon and other agro-climatic conditions in the country. However, with company's focus on vegetables for which the sales usually happen during Q3 and Q4, the operating losses tend to recoup during this slack season.

Regulated nature of industry

The seed industry being a priority sector and agriculture related activity is regulated by the government to a certain extent. The companies need to obtain necessary approvals from individual states wherever applicable as per the process laid down in the Seed Act. Before coming out in the market, a new hybrid variety of seed is subjected to various trial runs and periodic testing as prescribed and applicable. In addition to this, the prices of seeds of cotton are also regulated by the government. Furthermore, the use of genetically modified crops for field crops and vegetables is also subject to government regulations.

Industry Outlook

Monsoon outlook for the year 2021 is positive. Commodity prices for most crops are holding firm. Pandemic has increased the awareness about the need to eat healthy food and that should auger well for fruits and vegetables. In the short-term, consumption of vegetables and fruits may get adversely impacted due to lower demand in the HoReCa (Hotels, Restaurants and Canteens) segment and supply chain challenges leading to lower realization for the farmers.

Resurgence of Covid-19 across the country has caused more wide-spread disruption across complete supply chain in recent months. There have been challenging times across the value chain in the current fiscal year and softer environment for maize and vegetable seeds. Overall demand for Cotton seed may see trend lower due to increased use of unauthorized technologies like herbicide tolerant cotton.

On the positive side, in the last year, Indian agriculture overall performed well, aided by good rainfall, good reservoir levels, soil moisture and commodity prices in 2020-21. India is likely to report another big year as far as agriculture is concerned.

Liquidity: Adequate

Adequate liquidity characterized by sufficient cushion expected in gross cash accruals of Rs.16.58 crore in FY22 vis-à-vis repayment obligations of Rs. 7.58 crore and strong unencumbered cash balance of Rs.26.92 crore and liquid mutual fund investments to the tune of Rs.22.81 crore as on March 31, 2021. Its capex requirements are modular and expected to be funded using the internal accruals. Its bank limits are utilized to the extent of 37.4%, supported by above unity current ratio of 1.50x as on March 31, 2021 (PY: 1.48x).

Analytical approach: Standalone while factoring in operational and financial linkages with the parent, Bengal and Assam Company Limited.

Applicable Criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the Company

JK Agri Genetics Ltd (JKAL) was established in the year 1989 as an erstwhile division of JK Tyres & Industries Ltd (JKTL) and later converted to a public limited company in 2003. JKAGL is engaged in the business of research, production and marketing of hybrid seeds. It has a wide portfolio encompassing all the major crops including bajra, jowar, cotton, hybrid rice, maize, paddy, mustard and vegetables (tomato, chilli, okra, brinjal, gourds, melons, etc).

The Board of Directors of BACL have earlier approved a scheme of arrangement between Florence Investech Ltd (Florence), BMF Investments Ltd (BMF), JFIL and BACL ('Transferee Company') and their respective shareholders for Amalgamation of Florence & BMF ('Transferor Companies') with the Transferee Co w.e.f April 01, 2017 ('Appointed Date'). The said scheme has become effective on May 24, 2019 upon filing of certified copies of the requisite orders from NCLT with ROC. After the scheme getting effective, JK Agri Genetics Ltd is now a subsidiary of BACL with 67.42% being held by BACL.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	Q1FY22 (UA)
Total operating income	180.52	224.51	133.84
PBILDT	-3.66	20.95	34.47
PAT	-10.76	7.17	23.04
Overall gearing (times)	0.41	0.21	NA
Interest coverage (times)	-0.42	3.25	25.72

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	75.00	CARE A-; Stable
Non-fund-based - ST-BG/LC		-	-	-	5.00	CARE A2
Term Loan-Long Term		-	-	July 2024	9.75	CARE A-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	75.00	CARE A-; Stable	-	1)CARE BBB+; Stable (08-Sep-20)	1)CARE BBB+; Stable (27-Sep-19)	1)CARE A-; Stable (25-Oct-18) 2)CARE A-; Stable (04-Oct-18)
2	Non-fund-based - ST-BG/LC	ST	5.00	CARE A2	-	1)CARE A3+ (08-Sep-20)	1)CARE A3+ (27-Sep-19)	1)CARE A2 (25-Oct-18) 2)CARE A2 (04-Oct-18)
3	Term Loan-Long Term	LT	9.75	CARE A-; Stable	-	1)CARE BBB+; Stable (08-Sep-20)	1)CARE BBB+; Stable (27-Sep-19)	1)CARE A-; Stable (25-Oct-18) 2)CARE A-; Stable (04-Oct-18)

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	**Detailed explanation**
Financial covenants	
1. Term Loan	The purpose of the term loan is for long term working capital. The company shall maintain the annual DSCR to not fall below 1.25x during the tenure of the loan.
2. Cash Credit	The security for the limits include the following: First pari passu charge over entire existing and future current assets Second pari passu charge over entire fixed assets excluding land at Knowledge Park and Gujarat and movable assets pertaining to project funded through loan from BIRAC

	The margin for the limits is 25% on inventory of raw material and finished goods, book debts (cover period 180 days) and 40% on stock in process.
Non-financial covenants	
Cash Credit	The sub-limits of CC include WCDL, EPC/PCFC, BG/LC and LER.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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