JK Agri Genetics Limited

October 06, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	84.75	CARE A-; Stable (Single A Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	5.00	CARE A2 (A Two)	Reaffirmed
Total Bank Facilities	**89.75 (₹ Eighty-Nine Crore and Seventy-Five Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for the bank facilities of JK Agri Genetics Limited (JKAL) 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. The ratings continue to factor in the comfortable capital structure and debt coverage indicators. 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 JKAL for the overall group which is evident from equity infusion in the past two fiscals, thereby leading to strengthening of JKAL's capital structure and improved liquidity profile. 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-climatic conditions

Rating Sensitivities

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 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

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

JKAGL is well equipped with R&D facilities and a biotech lab with established breeding facilities for various field crops and vegetable seeds. JKAGL has a team of 35 scientists working across 5 breeding centers and 23 multi-location trial centers which covers all the climate zones of India. It has 7 R&D facilities and one Bio-Technology lab center at Dundigal village (Telangana). In addition to this, JKAGL also has several collaborations with reputed and leading research driven institutes to contribute to its research activities. During FY22, the company spent Rs. 14.60 cr. (~6% of total operating income) on research & development, which remained at the similar levels of Rs. 13.14 cr. (~6% of total operating income), spent during FY21. The R&D team has delivered hybrid products such as Cotton, Corn, Paddy, Bajra, and new varieties of Mustard and Wheat over the years. 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 and JKAL has launched 22 new hybrids in different crops in FY22 which contributed turnover of ₹2.11 crore.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Established brand names and distribution with growth in export revenue
"JK Seeds" is an established brand name among the farming community. JKAGL has a pan-India dealer-distribution network spread across all the major seeds market. It sells products in 28 states through a wide distribution network of more than 18 Carry & Forward agents, 2500+ distributors and more than 20,000 retailers. The company has been catering to African (Sudan, Ethiopia, Swaziland, and Mozambique) and ASEAN countries (Pakistan, Nepal, Bangladesh, and Sri Lanka) by exporting various crops such as Bajra, Jowar, Paddy, SSG, Cotton, Tomato, Bhindi, Brinjal, Watermelon, and other gourds. During FY22, the exports of the company increased by 20% to ₹25.79 crore from ₹21.88 crore in FY21. The increased international expansion helps JKAGL to mitigate the cyclicality and climatic risk of a specific country or region, while providing additional growth avenues. Furthermore, the company is in process of approval of cotton hybrid to export in Bangladesh where there is high demand of cotton which would increase the export market of the country. In Q1FY23, JKAGL has been able to export a lower amount compared to Q1FY22 primarily on account of political instability, forex unavailability in importing countries, currency depreciations, and high trade logistics costs. However, the management guided that they will be able to make up for the loss of export in Q1FY23 in Q4FY23 by doing export of ₹24 crore in FY23.f

Diversified product portfolio
JKAGL deals in wide range of products majorly involving field crops like cotton, paddy, maize, jawar, bajra, and vegetables providing JKAGL with a distinctive 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. In last couple of years, JKAGL launched new hybrids in field crops and as part of its product portfolio restructuring program has dropped some low margin, slow-moving and high-volume products, and varieties. 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 ₹64.7 crore in FY22 (27% of TOI) as against ₹53.7 crore in FY21. JKAL has further launched 22 new hybrids in different crops in FY22 which contributed turnover of ₹2.11 crore.

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. Dr. Gyanendra Shukla is the 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.
BACL is the investment holding company of the group & the promoter for JKAGL. BACL holds 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 (79% of the total investment) as on March 31, 2022, the market value of such holdings stood at ₹6,654 crore as on June 03, 2022. 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. JKAGL continues to benefit from the strong parentage and being a part of JK group conglomerate.

Key Rating Weaknesses
Regulated nature of the 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.

Seasonality and vulnerability of sales to agro-climatic conditions
The major sales concentration of JKAGL in in first quarter ending June which accounts of 50-60% of total sales. Furthermore, the sales and profitability of JKAGL are vulnerable to agro-climatic conditions prevailing in the country. Due to lack of adequate

irrigation facilities, the sales and consumption of seeds is highly dependent on the prevailing monsoon and other agro-climatic conditions in the country. However, with company's focus on vegetation products which happens in Q3 and Q4, the operating losses tend to recoup during this slack season.

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 which results in high inventory holding in the March quarter JKAGL ensures adequate availability of seeds with carry and forward agents and distributors to ensure ample samples. In line with the same, the finished seeds are also sold across to dealers/distributors by extending credit periods. Also, the company is focusing on more hybrids for new improved attributes for which the company has to maintain sufficient inventory. The company takes 50% advance from the export customers and also from certain private players in the domestic market. In FY22, the average inventory days stood at 238 days. The average trade receivables stood at 133 days during FY22.

The company has pending dues owing to sales to various state government departments (Rs. 18.24 cr. with Rajasthan government as on March 31, 2022, 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.

Liquidity: Adequate

The company's adequate liquidity is characterized by sufficient cushion expected in gross cash accruals of ₹10.75 crore in FY23 vis-à-vis repayment obligation of ₹4.5 crore and strong unencumbered cash balance of ₹30.58 crore and liquid mutual fund investments to the tune of ₹19.02 crore as on March 31, 2022. The capex requirements are modular and expected to be funded using internal accruals. The bank limits are utilized to the extent of 29.4% supported by above unity current ratio of 1.52x on March 31, 2022.

Analytical approach: Standalone.

The ratings however factor in strong management and financial linkages with the parent, Bengal and Assam Company Limited (BACL, rated CARE AA-; Stable)

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 Limited (JKAGL) was established in 1989 as an erstwhile division of JK Tyre & Industries Limited (JKTL) and later converted to public limited company in 2003. JKAGL is an agri-input company mainly in the area of business research, production, processing, and marketing of high-quality seeds for different crops like Bajra, Jowar, Paddy, Cotton, Maize, Vegetables, and plant nutrient products. The group companies include JK Lakshmi Cement Limited (JKLC, rated "CARE AA; Stable/ CARE A1+"), JK Tyre & Industries Limited (JKTL, rated "CARE A; Stable/ CARE A1), Bengal & Assam Company Limited (BACL, rated "CARE AA-; Stable"), JK Paper Limited. JK Agri Genetics Ltd is a subsidiary of BACL with 67.42% being held by BACL.

Brief Financials (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	31-06-2022 (UA)
Total operating income	223.78	245.85	116.98
PBILDT	20.22	15.20	19.11
PAT	7.17	7.73	12.20
Overall gearing (times)	0.21	0.24	NA
Interest coverage (times)	3.14	2.73	12.57

A: Audited; UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd.: Not Applicable

Disclosure of Interest of Managing Director & CEO: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	75.00	CARE A-; Stable	-	1)CARE A-; Stable (05-Nov-21)	1)CARE BBB+; Stable (08-Sep-20)	1)CARE BBB+; Stable (27-Sep-19)
2	Non-fund-based - ST-BG/LC	ST	5.00	CARE A2	-	1)CARE A2 (05-Nov-21)	1)CARE A3+ (08-Sep-20)	1)CARE A3+ (27-Sep-19)
3	Term Loan-Long Term	LT	9.75	CARE A-; Stable	-	1)CARE A-; Stable (05-Nov-21)	1)CARE BBB+; Stable (08-Sep-20)	1)CARE BBB+; Stable (27-Sep-19)

*Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

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

Annexure 5: Bank Lender Details for this Company
Click here to view Bank Lender Details

Contact us

Media Contact
Name – Mr. Mradul Mishra
Contact no. - +91-22-6754 3596
Email ID - mradul.mishra@careedge.in

Analyst Contact
Group Head Name – Ravleen Sethi
Group Head Contact no.- +91-22-6754 3596
Group Head Email ID- ravleen.sethi@careedge.in

Relationship Contact
Name: Swati Agrawal
Phone: +91-11-4533 3200
E-mail: swati.agarwal@careedge.in

About CARE Ratings Limited:
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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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