

National Seeds Corporation Limited

October 12, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	75.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Long-term / Short-term Bank Facilities	50.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Assigned
Total Bank Facilities	125.00 (Rs. One Hundred Twenty- Five Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of National Seeds Corporation Limited (NSC) derive strength from the operational ties it has with Government of India (GoI) and importance of NSC to the GoI for the implementation of various programs which are aimed at making the country self-sufficient in agriculture output through seed production and distribution. The ratings also factor in the established track record of NSC in seed processing and production of seeds across diverse certified crops and sowing seasons, the company's established market position with an extensive network of seed growers, owned farms and processing-cum-warehousing units across India and its comfortable financial risk profile.

These rating strengths are, however, constrained by delays in receipt of receivables and subsidies, exposure of revenue and profitability to the demand-supply dynamics, susceptibility to agro-climatic conditions and stiff competition from private players and state seed corporations.

Rating Sensitivities

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

- Sustained growth in the income (above 15%-20%) and profitability (above 10%) along with improvement in the working capital cycle (less than 90 days).

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

- Lower-than-expected accruals due to a significant decline in income or profitability, or elongation in working capital cycle leading to deterioration in liquidity and overall financial risk profile (overall gearing > 0.5x and Total debt/PBILDT > 2x).
- Any major change in the operational ties or reduction in the strategic importance to the GoI.

Detailed description of the key rating drivers

Key Rating Strengths

Strong operational linkages with GoI

National Seeds Corporation Limited (NSC) is a Schedule 'B'-Miniratna Category-I company wholly-owned by Government of India (GoI) (as on March 31, 2021) under the administrative control of Department of Agriculture Cooperation & Farmer's Welfare, Ministry of Agriculture and Farmers Welfare. With the launch of the National Seed Project in 1974, NSC was assigned the lead role to develop the seed industry in the country. NSC has played a pivotal role in the development of the industry since its inception in 1963 and contributes towards meeting the national requirement of supply of quality seeds of different crops and varieties to the farmers. NSC plays a key role in the implementation of various schemes of GoI such as National Food Security Mission (NFSM), National Mission on Oil Seed and Oil Palm (NMOOP), Mission for Integrated Development of Horticulture (MIDH), etc., aimed at making the country self-sufficient in agriculture output.

To support its operations, NSC receives capital grants for implementation of various projects and revenue subsidies related to production and distribution of seeds. Furthermore, the government has representation through two nominee Directors at the Board.

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

Well-established track record of operations

NSC was established in 1963 and has over five decades of track record in seed production and related activities. NSC had pioneered the growth and development of seed industry in India. NSC produces test stock, breeder, foundation and certified seeds of various crops in different regions of the country. Over the years, the company has established strong market presence for production and distribution of seeds. NSC undertakes production of seeds at its own farms as well as through registered seed growers. As on March 31, 2021, NSC has eight farms consisting of nearly 22,000 hectare land and over 12,500 registered seed growers all over the country to undertake seed production programmes in different agro-climatic conditions.

Diversified product portfolio and strong distribution network

NSC's portfolio covers over 80 crops consisting around 627 varieties across cereals, oilseeds, pulses, millets, fodder, fibres, green manure and a wide range of vegetables. Sales of seeds of cereals, pulses and oilseeds contribute nearly three-fourths of total sales for the company. The diversified product portfolio and the large network of seed growers, mitigates the risks arising due to any specific crop failures or demand risks.

NSC is a national-level company with presence across all states. NSC has 11 regional offices, 48 area offices, 107 marketing centers, 30 production centers and 4 seed testing/quality control labs, located across the country thus providing strong market presence.

Comfortable capital structure

The company's capital structure remains comfortable with low overall gearing ratio supported by nil long-term borrowings and healthy networth. Typically, the company does not avail any long-term loans for any capex or expansion activities, as it relies on government grants and internal accruals only. However, the company utilizes working capital borrowings in the form of CC / short-term loans to support its day-to-day operations in case of delays in realization of receivables. As March 31, 2021 (Prov.), total debt stood at Rs.10 crore against Rs.77 crore as on March 31, 2020.

As on March 31, 2021 (prov.), overall gearing stood at 0.01x (PY: 0.12x). For FY21 (Prov.; refers to the period April 1 to March 31), debt coverage indicators remain comfortable with interest coverage at 2.53 times and Debt/PBILDT at 0.88x.

In the last few years, total income and profitability of the company remained more or less stable, except FY21, wherein the profitability dipped. During FY21 (Prov.), NSC's income decreased 4% y-o-y due to covid-19 impact which led to disruptions in operations. During FY20, the company's income had declined 8% y-o-y due to adverse agro-climatic conditions such as heavy rains in some states at the time of harvesting and drought in few states. For FY21 (Prov.), PBILDT margin decreased y-o-y and stood at 1.08% (PY: 6.83%). The same was on the account of change in the accounting policy with respect to production subsidies from FY21 onwards, which has a one-time impact on the profitability. The company has started recognizing subsidy on actual procurement basis rather than estimated basis as per the annual action plan (AAP). Hence, it has recognized production subsidy of Rs.12.49 crore in FY21 against subsidy of Rs.94.09 crore as per earlier accounting treatment. It is to be noted that the subsidy recognized during FY21 is less due to recognition of certain portions during FY20 itself.

Non-honouring of a debt obligation:

CARE Ratings takes note that the company has not honoured one of its debt obligations from 2016 onwards. The company had availed a term loan of Rs.225.74 lakh from Allahabad Bank under a NABARD scheme for funding of godowns in rural areas. The company was entitled to a subsidy of Rs.45 lakh, which has been claimed by the bank on behalf of the company. However, the same remains yet to be disbursed by NABARD due to procedural delays and the repayment of the loan to that extent has not been made since August 17, 2016 as the same would be set off against the subsidy receivable from the government and benefit of interest subvention from the bank.

Key Rating Weaknesses***Delays in receipt of receivables and subsidies***

The company receives capital grants and production/distribution subsidies for the projects and sales, respectively, under various schemes of the government. Typically, subsidies for a year are received during the subsequent year. However, longer delays in realization of subsidies/receivables from the government in recent years have impacted the working capital cycle of the company leading to larger working capital borrowings and consequently higher interest expenses. Also, in order to manage the elongation in receivables, the company stretches the creditors' payments also to an extent. The total receivables including subsidies from government stood at Rs.586 crore as on June 30, 2021 (Prov.) against Rs.566 crore as on March 31, 2021 (Prov.) and Rs.689 crore as on March 31, 2020.

Increasing competition from private sector and state corporations

The seed industry in India is a mix of large, medium and small seed companies in public and private sector. The public sector is represented by NSC and the state seed corporations. Typically, private sector companies specializes in high value-low volume seeds, while NSC along with other state seed corporations provide low value-high volume seeds to farmers. With growing

preference towards hybrid seeds, the role of private sector in the industry has been growing in the recent years. Furthermore, NSC also faces competition from various state seed corporations for production of certified seeds, as some state governments prefer to procure seeds from their own corporations. It is to be noted that state corporations also receive subsidies from the governments similar to NSC, while the private players do not.

Agro-climatic risks

Similar to any agriculture-based sector, the seed industry is also seasonal and dependent on the agro-climatic conditions. Adverse agro-climatic conditions such as drought or heavy rainfall, or any pest/weed/disease outbreak could hamper the crop cultivation leading to lower demand for seeds. Nevertheless, NSC's pan-India presence limits these risks to an extent.

Liquidity: Adequate

The company had free cash and equivalents of Rs.20 crore as on June 30, 2021. The company has negligible long-term borrowings and utilizes short-term loans/Cash Credit for meeting its working capital requirement. The working capital utilization of the sanctioned CC limits (Rs.75 crore) remained limited, as it typically avails short-term loans to meet working capital requirements. The operating cycle of the company remains elongated at 124 days for FY21 (Prov.) (PY: 125 days) due to stretched collection period (FY21 (Prov.): 149 days and FY20: 138 days). The company does not provide any credit period on sales to dealers, while the credit period offered to government agencies is 90 days. However, the receivables remain elongated due to delays in the realization of the same.

Analytical approach: Standalone. The ratings, however, factor in the strong linkages with GoI and NSC being an important entity in the agriculture sector.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Financial ratios - Non-Financial Sector](#)

[Rating Methodology: Notching by factoring linkages with Government](#)

[Rating Methodology - Manufacturing Companies](#)

About the Company

National Seeds Corporation Limited (NSC) is a Schedule 'B' - Miniratna Category-I company wholly owned by Government of India under the administrative control of Department of Agriculture Cooperation & Farmer's Welfare, Ministry of Agriculture and Farmers Welfare. NSC, established in 1963, is engaged in production, processing, marketing, testing, storage and distribution of seeds (breeder, foundation and certified). Effective April 01, 2014, State Farms Corporation of India Limited (SFCIL), which was another GoI entity undertaking similar business activity was merged with NSC.

As on date, NSC produces over 627 varieties of 80 crops consisting of cereals, pulses, oilseeds, fiber, fodder and vegetables. As on March 31, 2021, NSC had 2,376,200 quintal of seed processing capacity and 1,574,700 quintal of seed storage capacity across its plants.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov.)
Total operating income	1,076	1,033
PBILDT	74	11
PAT	30	5
Overall gearing (times)	0.12	0.01
Interest coverage (times)	9.13	2.53

A: Audited; Prov. Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

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

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 AA; Stable
Fund-based - LT/ ST-Working Capital Limits	-	-	-	-	50.00	CARE AA; Stable / CARE A1+

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 AA; Stable				
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	50.00	CARE AA; Stable / CARE A1+				

* Long-term / Short-term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities - NA**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	Fund-based - LT/ ST-Working Capital Limits	Simple

Note on complexity levels of the rated instrument: CARE Ratings 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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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