

## Indo American Hybrid Seeds India Private Limited

January 20, 2021

### Rating

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	40.00	CARE BB-; Stable (Double B Minus; Outlook: Stable )	Assigned
<b>Total Bank Facilities</b>	<b>40.00</b> <b>(Rs. Forty Crore Only)</b>		

*Details of instruments/facilities in Annexure*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Indo American Hybrid Seeds India Private Limited (IAHS) was tempered by modest scale of operations albeit to y-o-y growth, operating and net losses for FY20, leveraged capital structure, weak debt coverage indicators, elongated operating cycle and highly competitive industry with established players.

However, the ratings derives strength from long track record of operations of over five decades, experienced management in Indian seed industry, established Research & Development division, diversified geographical reach and product range, healthy demand for hybrid seeds.

### Rating Sensitivities

#### Positive Factors (Factors that could lead to positive rating action/upgrade)

- Ability of the company to achieve turnover of more than Rs.150.00 crore while registering positive gross cash accruals.

#### Negative Factors (Factors that could lead to negative rating action/downgrade)

- Any increase in debt funded borrowings deteriorating overall gearing ratio beyond 8x.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Modest scale of operations albeit to y-o-y growth

The scale of operations has grown at CAGR of 12.29% during FY18 to FY20 due to increasing orders from existing customers on back of favorable demand for hybrid seeds coupled with launch of 15 varieties new hybrid seeds during the period. The total operating income has grown from Rs. 77.05 crore in FY18 to Rs. 97.12 crore in FY20. Further, the company has registered the total operating income of Rs. 117.96 crore in 8MFY21 (provisional). The growth during 8MFY21 is attributed to launch of 15 seed varieties, kharif season and good monsoon prospects.

#### Financial risk profile marked by continues losses, leveraged capital and weak debt coverage indicators

The company reported operating loss of Rs.7.68 Crore in FY20 due to increase in cost of materials, employee expenditure, sales & promotion expenditure. IAHS has reported continues losses for the period FY18 to FY19 due to high R&D expenditure to develop hybrid seeds and high fixed costs which includes farm maintenance cost of around Rs.9-9.5 Cr per year irrespective of scale of operations.

The capital structure is marked by high overall gearing ratio at 7.76x as on March 31, 2020 against 1.83x as on March 31, 2019 and 1.34x as on march 31, 2018 due to y-o-y increase in total debt levels to meet working capital requirements and erosion of net worth due to continuous loss.

#### Working capital intensive nature of operations

IAHS is engaged in manufacturing of agro seeds which is mainly dependent upon two major seasons Kharif (June to September) and Rabi (November to April), any climate imbalance would impact on operations of the company as it generates around 75% of its revenue during Kharif season. The company holds inventory required for one season to meet the orders. On account of which, the operating cycle of the company stood elongated at 165 days in FY20, though improved from 250 days in FY18 due to write off old and slow moving inventory. Further, the company receives credit period of 30 to 90 days from its suppliers and allows credit period up to 30 days to its customers. Working capital limits average utilization stood high ~85% for the last 12 months ending November 2020.

#### Exposure to agro climatic risk and intense competition from established players

The agriculture prospects in India is dependent on monsoon pattern. The country so far has witnessed favorable monsoon which bodes well for the agriculture season. In India, the hybrid seed market has considerable presence of MNC's players lead by Monsanto, DuPont, Syngenta, Nunhems India, etc, who have strong distribution network and huge financial muscle to carryout continuous R&D. Furthermore, the market is dominated by large domestic companies (viz,

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

Nuziveedu Seeds Private Limited, Rasi Seeds, Kaveri Seeds, etc) with large resources, strong distribution networks & R&D facilities.

### **Key Rating Strengths**

#### **Established track record and experienced management in Indian seed industry**

IAHS is incorporated in 1965, by Late Dr. Manmohan Attavar a horticulturist, plant breeder and Padma Shri award winner in the year 1998 for his contribution in horticulture. He also has won many national and international awards in the field of horticulture. Since inception the company is engaged in extensive Research and Development, Bio-Technology, Production and marketing of hybrid seeds of vegetable crops, field crops, flower and ornamental plants. Post demise of Dr. Manohar Attavar, Mr. Arthur Santosh Attavar (son) is appointed as Chairman and Managing Director and Ms. Jane Ruhama Rashmi Attavar (daughter) as the Joint Managing Director for Floriculture division. Both the directors along with other directors has vast experience in the field of hybrid seeds for more than two decades held the company to gain more customer and suppliers. Further supported by the qualified management team who has relevant experience of more than two decades.

#### **Established Research & Development division**

IAHS is engaged in extensive Research and Development, Bio-Technology, Production and marketing of hybrid seeds of vegetable crops, field crops, flower and ornamental plants. The company has introduced tissue culture banana, vanilla and large cardamom commercially into the Indian market, and initiated restructuring of the Commercial Biotech operation and extension of the product line for the domestic Indian market. IAHS has won the national award in 1995 and 2000 for innovative research by the council of Scientific and Industrial Research (CSIR). Further, the company has Commercial Tissue Culture (TC), where IAHS produces disease free TC plants of select ornamental, fruit and plantation crops. The seeds laboratory is an International Seed Testing Association (ISTA) accredited laboratory, where the seeds are labelled with red and green certificates for exports. IAHS has 10 laboratories engaged in research and development activities along with other allied services which management by team of 30 skilled professionals in agriculture comprising of 5 agro scientists and 10 Phd scholars.

#### ***Diversified geographical reach and product range***

Due to long presence in the industry, the company has its presence across India with the distribution network of around 700 distributors and IAHS has various product under field crop division and vegetables crop division. The company has newly launched 15 varieties of seeds during last 3 years which propels the revenue growth in short to medium term.

#### ***Favorable prospects for hybrid seeds in India***

Indian hybrid seed market expected to grow at CAGR of 11.00% for the period 2017-2030. The raising awareness among the farmers regarding the hybrid seeds and their substantial impact on per hectare production has led to growing sales of the hybrid seeds.

#### **Liquidity Analysis: Stretched**

The liquidity profile of the company is marked by high average CC utilization of 85%, moderate cash balance of Rs.1.21 Cr. Further, the company has availed moratorium for the period March 01, 2020 to August 31, 2020 and has to repay FITL of Rs.1.38 Cr before March 31, 2020.

**Analytical approach:** Standalone

#### **Applicable criteria:**

[Criteria on assigning Outlook to Credit ratings](#)

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

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

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

[Rating methodology – Manufacturing Companies](#)

#### **About the Company**

Bangalore based Indo American Hybrid Seeds India Private Limited (IAHS) was established as Proprietary concern by Late Dr. Manmohan Attavar in 1965. The firm reconstituted as a private limited company in 1997, and continued to engage in production of hybrid seeds of selective vegetables and field crops. The company has own farming land up to 400 acres and more than 5000 acres under contract farming for pollinating the seeds and the same will be tested in its laboratories for quality control.

Brief Financials (Rs crore)	FY19 (A)	FY20 (A)
Total operating income	91.66	97.20
PBILDT	0.63	-7.68
PAT	-6.08	-14.41
Overall gearing (times)	1.83	7.76
Interest coverage (times)	0.13	NM

A-Audited; NM: Not Meaningful

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** Not Applicable

**Rating History (Last three years):** Please refer Annexure-2

#### Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	28.50	CARE BB-; Stable
Fund-based - LT-Proposed fund based limits	-	-	-	3.65	CARE BB-; Stable
Fund-based - LT-Working Capital Demand loan	-	-	September 2022	2.85	CARE BB-; Stable
Fund-based - LT-Working capital Term Loan	-	-	September 2024	5.00	CARE BB-; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	28.50	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Proposed fund based limits	LT	3.65	CARE BB-; Stable	-	-	-	-
3.	Fund-based - LT-Working Capital Demand loan	LT	2.85	CARE BB-; Stable	-	-	-	-
4.	Fund-based - LT-Working capital Term Loan	LT	5.00	CARE BB-; Stable	-	-	-	-

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

	Detailed explanation
A. Financial covenants	Nil
B. Non-financial covenants	
Lender	Bank borrowings/ working capital funds not to be diverted to undertake any new projects unless expenditure on such expansion is covered by company's new cash accruals.

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Proposed fund based limits	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	Fund-based - LT-Working capital Term Loan	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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