JK Agri Genetics Limited

November 29, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	86.80 (Enhanced from 84.75)	CARE A-; Negative	Reaffirmed; Outlook revised from Stable
Short-term bank facilities	2.35 (Reduced from 5.00)	CARE A2	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings to the bank loan facilities and instruments of JK Agri Genetics Limited (JKAGL), while the outlook stands revised to 'Negative' from 'Stable'. The rating reaffirmation for the bank facilities of JKAGL continue to derive strength from its experienced promoter group and strong parentage of Bengal & Assam Co Ltd, established brand name with pan-India distribution network and diversified product mix.

The ratings continue to factor in the adequate liquidity maintained in the form of mutual funds with cash & liquid investments being ₹55.76 crore as on March 31, 2023. The ratings continue to draw strength from its strong parentage, being a 67.42% subsidiary of Bengal & Assam Company Limited {BACL – rated CARE AA-; Stable} which in turn is a part of the JK group (East), and strategic importance of JKAL for the overall group which is evident from equity infusion in the past, thereby leading to strengthening of JKAGL's capital structure and improved liquidity profile. These rating strengths, however, are constrained by decline in revenue in FY23 which is expected to continue in FY24 owing to decline in institutional orders, vegetable seeds sales and export orders. It is also constrained by 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.

The revision in Outlook from 'Stable' to 'Negative' is largely driven by the significant moderation In the operating performance of the company which if continues may significantly impact JKAL's credit profile going forward. Both, the profitability margins and the solvency ratios, which already were adversely impacted in FY23 are expected to moderate further in FY24. Improvement in operating profitability and consequently debt coverages metrics shall remain key monitorable going forward.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- Decline in profit before interest, lease rentals, depreciation & tax (PBILDT) margin of more than 3% from the current envisaged levels on a sustained basis going forward.
- Any sizeable capital expenditure (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%

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)

Outlook: Negative

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

The revision in Outlook from 'Stable' to 'Negative' is largely driven by the significant moderation in the operating performance of the company which if continues may significantly impact JKAGL's credit profile going forward. Both, the profitability margins and the solvency ratios, which already were adversely impacted in FY23 are expected to moderate further in FY24. Improvement in operating profitability and consequently debt coverages metrics shall remain key monitorable going forward. Continued weakness in operating profitability or inability to improve the net debt to PBILDT may lead to rating downgrade. Conversely, improvement in operating profitability as envisaged may lead to revision of outlook to 'Stable'.

Detailed description of the key rating drivers:

Key strengths

Strong in-house R&D division and technical collaboration with leading industries: JKAGL is well equipped with research & development (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 five breeding centers and 23 multi-location trial centers which covers all the climate zones of India. It has seven 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 FY23, the company spent ₹16.05 cr (around 8% of total operating income) on research & development, which marginally increased in FY22 from ₹14.60 cr (around 6% of total operating income). The R&D team has delivered hybrid products such as cotton, corn, paddy, bajra, and new varieties of mustard and wheat over the years.

Established brand names and distribution network albeit slowdown in sales in FY23 & FY24: "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, 2,900+ distributors and more than 30,000 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 FY23, JKAGL witnessed around 70% decline in revenue from exports to ₹7.80 cr. (4% of topline) as compared to ₹25.8 crore (10.5% of total revenues) during FY22 owing to macro-economic conditions in few of exporting countries. During the year, it had to face headwinds due to political instability in many countries, forex availability & sharp currency depreciations in the importing countries coupled with high trade logistics costs had impacted profitability. Furthermore, the company is in the 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 Q1FY24, JKAGL has been able to export a lower amount compared to Q1FY23 primarily on account of political instability, forex unavailability in importing countries, currency depreciations, and high trade logistics costs.

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. JKAGL had further launched 22 new hybrids in different crops in FY22 which contributed turnover of ₹2.11 crore, which increased to ₹6.74 crore in FY23. However, in FY23, the revenue from field crops has reduced by 16%and for vegetables it reduced by 33% owing to reduction in institutional orders and export sales. Institutional orders have reduced by 60% in FY23. Major impact was observed in vegetable business due to shift in farmers preference from hybrid to saved seeds (OPV) and change in cropping pattern which had impacted high-margin crops like hot pepper and okra.

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; 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 Bharat Hari Singhania. Dr. Gyanendra Shukla is the President and Director (CEO) of the company w.e.f May 23, 2019. The management team is taking 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 the major JK group of companies, thereby providing it with adequate financial flexibility. As against the book value of listed investments of ₹867.03 crore (75% of the total investment) as on March 31, 2023, the market value of such holdings stood at ₹11,918 crore as on November 21, 2023. The promoter group of the company infused total funds to the tune of ₹50 crore in the recent past, out of which ₹32.47 crore was received by JKAGL in FY20 and the remaining ₹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 the JK group conglomerate.

Key rating weaknesses

Moderation in operating performance in FY23 and FY24: The company recorded decline of 18% in total operating income to ₹200.93 crore (PY: ₹245.85 crore) in FY23. There has been decline in institutional orders, vegetable seeds sales and export orders. The company incurred operating loss of ₹8.32 crore in FY23 and ₹2.04 crore in H1FY24 as well, which is expected to continue in H2FY24 as well.
Decline in profitability levels in FY23 eroded net worth levels to ₹122.22 crore as on March 31, 2023 (PY: ₹133.87 crore), which led to decline in gearing levels to 0.33x as on March 31, 2023 (PY: 0.24x) and further to 0.39x as on September 30, 2023. Interest coverage ratio is also negative as well. However, the company is still net debt negative with cash & liquid investments of ₹55.76 crore and total term debt being ₹13.75 crore as on March 31, 2023. Hence, JKAGL has sufficient liquidity to take care of any operational loss in FY24 and also upcoming debt and interest repayments.

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 the first quarter ending June which accounts of 50-60% of total sales (in FY2023, it being 57% of total operating income of FY2023). 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 the 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 are available. 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. The average inventory days of the company also increased to 271 days for FY23 as against 238 days for FY22. The average trade receivable days of the company increased to 159 days during FY23 as compared to 133 days for FY22.
The company has pending dues owing to sales to various state government departments (₹18.24 crore; ₹1.23 crore as security deposit) with the Rajasthan government as on March 31, 2023, including in total debtors of the company. With regards to dues to the Rajasthan government, the materials supplied met all the quality specifications and was accepted by the government, thus the receivable is considered good and recoverable.

Liquidity: Adequate

The company's adequate liquidity is characterized by sufficient cushion from liquid mutual fund investments to the tune of ₹50.54 crore as on March 31, 2023 and free cash & bank balance of ₹5.12 crore vis-à-vis debt and interest repayments of ₹10.49 crore in FY2024 and ₹11.73 crore each in FY2025 and FY2026. Though the company has negative gross cash accruals of ₹12.81 crore however, management is guiding that this will though remain in negative territory in FY24 as well but shall improve thereafter with the steps management is taking. The company does not have any capital expenditure planned in the next three years however, incremental capex of ₹1-2 crores is expected to be funded from cash & bank balance. The sanctioned fund-based limits are utilized to the extent of 52.08% supported by above unity current ratio of 1.39x on March 31, 2023.

Assumptions/Covenants

Not Applicable

Environment, social, and governance (ESG) risks

Not Applicable

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Fast-moving consumer goods	Fast-moving consumer goods	Agricultural Food & other products	Other agricultural products

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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1 FY24 (UA)
Total operating income	245.85	200.92	91.28
PBILDT	15.20	-8.32	-2.04
PAT	7.73	-10.80	-5.57
Overall gearing (times)	0.24	0.33	0.39
Interest coverage (times)	2.73	-1.19	-0.50

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

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		-	-	-	75.30	CARE A-; Negative
Non-fund-based - ST-BG/LC		-	-	-	2.35	CARE A2
Term loan-Long term		-	-	March 2026	11.50	CARE A-; Negative

Annexure-2: Rating history for the 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 2023-2024	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
1	Fund-based - LT-Cash credit	LT	75.30	CARE A-; Negative	-	1)CARE A-; Stable (06-Oct-22)	1)CARE A-; Stable (05-Nov-21)	1)CARE BBB+; Stable (08-Sep-20)
2	Non-fund-based - ST-BG/LC	ST	2.35	CARE A2	-	1)CARE A2 (06-Oct-22)	1)CARE A2 (05-Nov-21)	1)CARE A3+ (08-Sep-20)
3	Term loan-Long term	LT	11.50	CARE A-; Negative	-	1)CARE A-; Stable (06-Oct-22)	1)CARE A-; Stable (05-Nov-21)	1)CARE BBB+; Stable (08-Sep-20)

*Long term/Short term.

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

Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

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

Note on the complexity levels of the rated instruments: 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@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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