Srikar Biotech Private limited

November 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	83.00	CARE BBB+; Stable	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

For arriving at the rating, CARE Ratings Limited (CARE Ratings) has combined the business and financial risk profiles of Srikar Biotech Private Limited (SBPL) and Eldorado Agritech Private Limited (EAPL), together referred as Srikar Group.

Ratings assigned to bank facilities of Srikar Group are driven by promoters' extensive experience in the agriculture sector, group's expanding scale of operations with a combined revenue exceeding ₹410 crore in FY24 (FY refers to April 01 to March 31), healthy operating profitability marked by a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 18.6% for FY24, established market position and dealer network, diversified product portfolio, comfortable financial risk profile, adequate liquidity position, and stable industry outlook. Revenue from operations at a combined level has grown at a compounded annual growth rate (CAGR) of 24% in the last four years driven by increased sales volume for in-house developed field crop seeds, agrochemical, and bio products. The group's total operating income (TOI) and profitability in H1FY25 continued to show improvement backed by sustained demand particularly from the seeds business.

The rating strengths are partially offset by the geographic concentration risk and sensitivity to weather and climatic conditions. The company operates in a working capital intensive industry attributable to the advances provided to farmers for large-scale seed cultivation and the need to maintain higher inventory levels at the year-end, resulting in increased reliance on bank borrowings for working capital requirements.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The TOI increasing to above ₹800 crore while maintaining PBILDT margin over 20% on a sustained basis.
- Operating cycle improving to below 150 days.
- Overall gearing improving to below 0.5x.

Negative factors

- Decline in TOI and PBILDT levels by over 20%.
- Significantly elongating operating cycle, impacting company's liquidity.

Analytical approach: Combined

CARE Ratings has combined the financials of EAPL and SBPL (referred as Srikar Group) since these entities have common promoters and demonstrate operational linkages.

Outlook: Stable

CARE Ratings expects that the entity will continue to benefit from its established market position in the agricultural seeds, agrochemical, and bio products.

Detailed description of key rating drivers:

Key strengths

Experienced and qualified promoters

Dr. Linga Srinivasa Rao, Chairman and Managing Director of the Srikar Group, holds a Ph.D. from IARI, New Delhi, bringing a strong agricultural foundation to the company. Usha Rani Papineni, Co-founder and Director, holds M.Sc. and M.Phil degrees. The promoters have over two decades of experience in the fields related to the agriculture sector. The company has appointed experienced Ph.D.-level agricultural scientists, to oversee each seed category for the development of new hybrid seed varieties.

Improved financial performance

Revenue from the group operations at a combined level has grown at a CAGR of 24% over four years driven by increased demand for field crop seeds and agrochemical products. In FY24, combined revenue increased by 30% from ₹314.73 crore in FY23 to ₹410.45 crore driven by increased sales volume of maize seeds, paddy seeds, pesticides, and bio-products. In H1-FY25, revenue at a combined level, stood at ₹365 crore. The operating profitability remains healthy, with the PBILDT margin improving to 18.64% in FY24 from 16.83% in FY23, attributed to better absorption of fixed overheads driven by the growth in sales volumes.

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

Comfortable financial risk profile
The group's financial risk profile stands comfortable marked by below unity overall gearing. However, there was a slight moderation in overall gearing to 0.83x as on March 31, 2024 (PYE: 0.76x), primarily due to increased working capital borrowings aligned with a rise in scale of operations in EAPL and SBPL. Other coverage indicators also stand comfortable in FY24, with an interest coverage ratio of 6.09x (PY: 7.40x) and total debt to PBILDT of 2.06x (PY: 2.03x).

Diversified product portfolio and low client concentration risk
Srikar group develops and produces a variety of seed types, including cotton, paddy, maize and other seeds, with further distinctions within each seed category based on specific characteristics, such as pest resistance, high yield potential, cold tolerance among others. In the current fiscal, the group has entered the vegetable seeds segment. The product segments under SBPL include insecticides, fungicides, weedicides, plant growth regulators, water soluble fertilizers, bio stimulant, and micronutrient products. EAPL and SBPL supply seeds and agrochemical products through an established network of over 8500 dealers across 20 states, catering to a diversified clientele. The top nine clients collectively account for ~10% of revenue for each company, reflecting a low client concentration risk.

Key weaknesses

Elongated working capital cycle
The group's working capital cycle aligns with the agricultural seasons, mainly Kharif and Rabi. Peak sales occur in Q1 (April to June) in the Kharif sowing season, requiring the company to maintain higher inventory well in advance by February-March. Seeds are supplied to farmers for large-scale cultivation on leased fields, and EAPL provides advances to farmers to cover cultivation expenses, which contributes to the company's working capital needs. This results in a stretched working capital cycle of 175 days in FY24 at a combined level. However, there has been an improvement from 186 days in FY23 considering better overall inventory turnover.

Sensitivity to weather and climatic conditions
The agri-seeds and agrochemicals sector are highly vulnerable to climate and weather fluctuations, as crop growth depends heavily on favourable conditions. Unpredictable events such as droughts, excessive rainfall, floods, or extreme temperatures can significantly affect farmers' purchasing decisions, impacting the demand for seeds and agrichemicals. Prolonged adverse weather can lead to lower crop yields, reducing farmers' income and their ability to invest in high-quality seeds and crop protection products. For companies, such unpredictability can lead to volatile sales cycles, affecting inventory management and cash flows.

Geographical concentration risk
Though products of EAPL and SBPL are sold across 20 states, over 75% of the revenue is derived from five states for EAPL and three states for SBPL. However, revenue concentration for EAPL's top five states decreased from 95% in FY21 to 73% in H1-FY25. Similarly, SBPL's revenue concentration from its top three states has decreased from 97% in FY21 to 73% in H1-FY25. This improvement is due to an increasing market reach for seeds and agrochemical products across additional states.

Liquidity: Adequate

The group's liquidity position is supported by GCA of ~₹55 crore for FY24, free cash and bank balance of ₹3.80 crore and current ratio at 1.53x as on March 31, 2024. However, reliance on bank borrowings for working capital is high, marked by an average working capital limit utilisation of 87% for EAPL for the 12 months ended September 30, 2024 and 78% for SBPL for the 12 months ended August 31, 2024.

Assumptions/Covenants - Not applicable

Environment, social, and governance (ESG) risks - Not applicable

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Pesticides & Agrochemicals

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Fertilizers & agrochemicals	Pesticides & agrochemicals

Srikar Group was established in 2008 by Dr Linga Srinivasa Rao and Dr Usha Rani Papineni in Hyderabad and started its operations in SBPL as a manufacturer and supplier of pesticides, bio-stimulant products, organic fertilizers, and micronutrients. In 2014, the group expanded into the agricultural seeds market under EAPL, which develops agricultural seeds through a specialised in-house R&D team. Each seed type has dedicated oversight by Ph.D.-qualified agricultural scientists responsible for development of new seed varieties. The group has a strong dealer network of over 8,500 dealers across 20 states.

Combined

Brief Financials (₹ crore)	March 31, 2023 (UA)	March 31, 2024 (UA)	H1-FY25 (UA)
Total operating income	314.73	410.45	365.00
PBILDT	52.98	76.51	93.62
PAT	36.75	47.78	61.30
Overall gearing (times)	0.76	0.83	0.79
Interest coverage (times)	7.40	6.09	NA

UA: Unaudited, NA: Not available. Note: these are latest available financial results.

SBPL-Standalone

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)	H1-FY25 (UA)
Total operating income	109.96	161.22	121.79
PBILDT	16.43	27.49	22.32
PAT	7.96	15.65	14.51
Overall gearing (times)	0.48	0.80	NA
Interest coverage (times)	5.37	7.34	NA

A: Audited, UA: Unaudited; NA: Not available. Note: these are latest available financial results.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	78.00	CARE BBB+; Stable
Fund-based - LT-Term loan		-	-	Jun-2027	5.00	CARE BBB+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash credit	LT	78.00	CARE BBB+; Stable				
2	Fund-based - LT-Term loan	LT	5.00	CARE BBB+; Stable				

LT: Long term.

Annexure-3: Detailed explanation of covenants of rated instruments/facilities - Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple

Annexure-5: Lender details

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

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

Contact us

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About us:
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