JK Agri Genetics Limited

January 09, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	84.56 (Reduced from 86.80)	CARE A-; Negative	Reaffirmed
Short-term bank facilities	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings of JK Agri Genetics Limited (JKAGL) have been reaffirmed at CARE A- while the outlook continues to be negative. CARE Ratings Limited (CARE) has withdrawn the outstanding rating of CARE A2 assigned to short term bank facilities (proposed) of JKAGL with immediate effect as the company has not availed the aforementioned limit rated by CARE Ratings and there is no amount outstanding under this facility as on date.

Reaffirmation in long term rating assigned to bank facilities of JKAGL derives strength from being part of well-known and diversified JK Group with strong parentage of key investment arm of the group, Bengal & Assam Co Limited (holding 67.42% in JKAGL) and financial support flowing through equity infusion in the past years which may continue going forward on need basis. The rating also draws comfort from available liquidity with the company, established brand name with pan-India distribution network of JKAGL offering diversified product mix, in house R&D division and technical collaboration with leading players.

CARE Ratings considers operating losses and decline in total operating income (TOI) in FY24 (refers to April 01 to March 31) and subpar results in H1FY25 (refers to April 01 to September 30) considering adverse impact of erratic rainfalls and cyclone in south Indian region causing damage to primary crops such as cotton and paddy among others and reduction in number of distributors, field staff and number of crops. However, CARE Ratings expects fiscal 2025 will be slightly better and the company will report operational profits from FY26 onwards. The dip in performance led to moderation in net worth base and debt protection metrics in the fiscal 2024 and 2025 which is partially mitigated with the inflow of ₹72 crore through recent sale of land parcel at Hyderabad reflecting in liquidity buffer of ₹102.74 crore as on November 30, 2024 against nominal debt repayment. The company's ability to turnaround operations and generate adequate cash accruals improving overall financial risk profile in the near-to-medium term will also remain a key monitorable.

These rating strengths remain constrained by the deterioration in its operational performance, elongated operating cycle owing to high pending dues from state governments and large inventory holding requirements, regulated seed industry and vulnerability of sales to seasonality and agro-climatic conditions.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The company's ability to increase its scale of operations above ₹250 crore on a sustained basis going forward amidst seasonal business and enhance its profitability margins with increase in sales.
- The company's ability to reduce its dependence on the sales from the first quarter of the financial year and introduce strategies to combat the seasonality of business.
- The company's ability to manage its working capital requirements while timely realising its debtors and dues pending from the state governments.

Negative factors

- Continuous moderation in scale of operations and operating the company's profitability there by impacting its credit risk profile.
- Sizeable capex undertaken by the company adversely impacting the capital structure with the overall gearing exceeding 1x.
- Change in the shareholding pattern, leading to decline in the stake held by BACL by less than 51%.

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

Outlook: Negative

Continuation of 'Negative' outlook is largely driven by the significant moderation in the company's operating performance which if continues may significantly impact JKAGL's credit profile going forward. Improvement in operating profitability and consequently

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

debt coverages metrics shall remain key monitorable going forward. Continued weakness in operating profitability may lead to rating downgrade. Conversely, improvement in operating profitability as envisaged may lead to revision of outlook to 'Stable'.

Detailed description of key rating drivers:

Key strengths

Experienced promoter group and long track record of operations

JKAGL benefits by being a part of the JK group (east), which is over 100 years old and employs over 50,000 people across the group. The group has diversified business interests including cement (through its group company JK Lakshmi Cement Limited (JKLC) (CARE AA; Stable/CARE A1+)), auto ancillary (through its group company JK Tyre & Industries Limited (CARE AA-; Stable/CARE A1+)), paper (through its group company JK Paper Limited), 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. JKAGL's board consists of seven non-executive directors and two executive directors. Kuldeep Kumar Pandit is the company's president and director (CEO) from November 24, 2023. The management team is taking measures to improve efficiencies in the company's structure and operational processes, including rationalisation of the product portfolio and distribution network, thrust on digital marketing, strengthening planning and forecasting and upgrading the logistics and supply chain operations of JKAGL. BACL is the group's investment holding company and JKAGL's promoter. BACL holds significant investments in the form of listed shares of the major JK group of companies, providing it with adequate financial flexibility. Market value of such holdings stood at ₹13,794 crore as on December 18, 2024. The company's promoter group infused total funds of ₹50 crore in the past, of which ₹32.47 crore was received by JKAGL in FY20, and the remaining ₹17.54 crore was received in FY21. This strengthened the company's capital structure. JKAGL continues to benefit from strong parentage and being a part of the JK group conglomerate.

Established brand names and distribution network despite slowdown in sales in FY23 and FY24

"JK Seeds" is an established brand name among the farming community. JKAGL has a pan-India dealer-distribution network across major seeds market. It sells products in 28 states through a wide distribution network of over 18 carry and forward agents, 1,800+ distributors and over 30,000 retailers. The company has been catering African (Sudan, Ethiopia, Swaziland, and Mozambique) and ASEAN countries (Pakistan, Nepal, Bangladesh, and Sri Lanka) by exporting crops such as bajra, jowar, paddy, SSG, cotton, tomato, bhindi, brinjal, watermelon, and other gourds. During the year, it had to face headwinds due to political instability in many countries, forex availability and sharp currency depreciations in the importing countries and high trade logistics costs had impacted profitability. Accordingly, the company's export sales stood low at ₹12.58 crore which account for 8% of the company's overall revenue in FY24. 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 country's export market and remains a monitorable.

In-house R&D division and diversified product portfolio

JKAGL is well equipped with research and development (R&D) facilities and a biotech lab with established breeding facilities for 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.

JKAGL deals in wide range of products majorly involving field crops such as 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 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 has demonstrated a minor contribution in revenue in FY24 (₹8.99 crore increased from ₹6.74 crore and ₹2.11 crore in FY23 and FY22, respectively). However, in FY24, the revenue from field crops has reduced by 19% and for vegetables it reduced by 48% (over 16% and 33% decline in FY23 for field crop and vegetable sales, respectively) owing to the company's decision to remove the field sales staff from their roles to reduce employee cost. This decision impacted the customers' reach, impacting sales volume and profitability. Thus, JKAL has now reinstated these staff members into the payroll, which has helped in achieving significant year-over-year (y-o-y) sales growth of ~21% in H1FY25.

Key weaknesses

Deterioration in operating performance

The company recorded decline of 26% in TOI to ₹148.10 crore (PY: ₹200.92 crore) in FY24 (over 18% decline in TOI in FY23) primarily due to the company's decision to remove field sales staff from their roles as a part of cost cutting measures. This decision impacted the customers' reach, impacting sales volume and profitability. The lower sales volume had a cascading impact on

profitability, as fixed costs remain constant despite reduced revenue. Accordingly, the company's operating losses increased to ₹25.23 crore in FY24. However, realising the critical role of field sales staff in driving customer engagement and boosting demand, JKAL reinstated them on its payroll in FY25. Because of this, despite the cyclone in south India destroying 30-40% production of major crops, the company's TOI improved by ~21% in H1FY25 on a y-o-y basis.
Despite the decline in profitability levels since past two years, which eroded net worth levels to ₹101.69 crore as on March 31, 2024 (₹133.87 crore as on March 31, 2022), the company's gearing level stood comfortable at 0.32x as on March 31, 2024 (PY: 0.33x). The company has monetise a land in Hyderabad for ₹72 crore in November which increased the company's total unencumbered cash and liquid investments to ~₹102 crore as on November 30, 2024. The company is net debt negative. The company's debt repayments can easily be met through available liquidity. However, the company has relatively moderate net worth base, moderate return on capital employed (ROCE) and interest coverage indicators.

Regulated 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 per the process laid down in the Seed Act. Before coming out in the market, a new hybrid variety of seed is subjected to 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. 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 accounts of 50-60% of total sales (in FY24, it being 55% TOI of FY24). JKAGL's sales and profitability are vulnerable to agro-climatic conditions prevailing in the country. Due to lack of adequate irrigation facilities, the sales and consumption of seeds highly depends 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, operating losses tend to recoup in this slack season.

Elongated operating cycle

JKAGL has product range which includes major kharif and rabi crops and several hybrid seeds for vegetables which are sown in between the seasons. However, the major concentration of sales remains in kharif seasons, which include cotton and paddy seeds. Therefore, a the company's majority 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. Aligned with this, the finished seeds are also sold across 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 company's average inventory days also increased to 286 days for FY24 against 238 days for FY22. The company's average trade receivable days increased to 151 days in FY24 compared to 133 days for FY22. The company has pending dues owing to sales to state government departments (₹18.24 crore; ₹1.23 crore as security deposit) with the Rajasthan government as on March 31, 2024, including in the company's total debtorswhich is currently under litigation. To address the problem of delayed receivables, JKAL has hired a recovery agency specifically to pursue overdue amounts exceeding one year.

Liquidity: Adequate

The company's adequate liquidity is characterised by sufficient cushion from unencumbered cash and liquid investments of ₹102.74 crore as on November 30, 2024, against debt and interest repayments of ~₹15 crore in FY25 and ₹12-13 crore in FY26 and in FY27. Average and maximum working capital utilisation for 12 months ended September 2024 are 46.33% and 52.00%, respectively, which depicts sufficient headroom to provide liquidity in case of exigency. The company has capex plans of ₹11-12 crore in FY25 toward R&D and for constructing a research laboratory and procuring laboratory equipment which will entirely be funded through unencumbered cash and liquid investments. JK Agri Genetics Limited is backed by strong support of parent companies as it is of strategic importance for the overall group.

Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast moving consumer goods	Fast moving consumer goods	Agricultural food and 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 business research, production, processing, and marketing high-quality seeds for different crops such as 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 AA-; 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)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	200.92	148.10	108.20
PBILDT	-8.32	-25.23	-3.00
PAT	-10.80	-20.82	-4.74
Overall gearing (times)	0.33	0.32	0.24
Interest coverage (times)	NM	NM	NM

A: Audited UA: Unaudited NM: Not meaningful; 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		-	-	-	75.30	CARE A-; Negative
Non-fund-based - ST-BG/LC		-	-	-	0.00	Withdrawn
Term Loan-Long Term		-	-	Feb-2027	9.26	CARE A-; Negative

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	75.30	CARE A-; Negative	-	1)CARE A-; Negative (29-Nov-23)	1)CARE A-; Stable (06-Oct-22)	1)CARE A-; Stable (05-Nov-21)
2	Non-fund-based - ST-BG/LC	ST	-	-	-	1)CARE A2 (29-Nov-23)	1)CARE A2 (06-Oct-22)	1)CARE A2 (05-Nov-21)
3	Term Loan-Long Term	LT	9.26	CARE A-; Negative	-	1)CARE A-; Negative (29-Nov-23)	1)CARE A-; Stable (06-Oct-22)	1)CARE A-; Stable (05-Nov-21)

LT: Long term; ST: Short 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	Non-fund-based - ST-BG/LC	Simple
3	Term Loan-Long Term	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.

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About us:

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