

Nuziveedu Seeds Limited

February 25, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	50.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	50.00 (Rs. Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of Nuziveedu Seeds Limited (NSL) takes into account healthy growth in total operating income and profitability margins during FY21 (refers to period April 01 to March 31) and healthy gross cash accruals leading to controlled working capital utilization. The ratings also positively factor in the settlement of the dispute between NSL and Mahyco Monsanto Biotech Limited(MMBL). Further the ratings continue to derive strength from strong and experienced Promoters, supported by professional and qualified management, strong Research & Development (R&D) facilities, existence of own germplasm; which is the major raw material for hybridization process, strong & efficient marketing network, geographically diversified product portfolio albeit revenue concentration towards cotton seeds, and adequate liquidity. The rating continues to be tempered by product concentration albeit reducing Y-o-Y, elongated operating cycle and dependence on vagaries of nature.

Rating Sensitivities

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

- Improvement in the PBILDT margins over 22% on a sustained basis.
- Maintaining total operating cycle consistently below 180 days.
- Reduction in product concentration with no single variety of seed contributing more than 30%.

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

- Overall gearing going beyond 0.75x on sustained basis.
- To undertake the capex by utilizing the internal accruals or any further investment in subsidiaries or associate companies from the cash flows generated from the company causing strain on liquidity.

Detailed description of the key rating drivers

Stable total operating income with improved profitability margins during FY21 albeit moderated during 6MFY22:

Total operating income of the company at consolidated level remained stable at Rs. 868.21 crore in FY21. The average price per packet of the cotton seeds also remained stagnant at Rs.605 during FY21 (Rs. 603 in FY20), however the company has sold packets of 66 lakh seeds in FY21 as against 71 lakhs packets during FY20. However, cotton seed prices have increased in H1FY22 to Rs. 617 per packet and NSL was able to sell total volume of 58 lakh packets in the same period. PBILDT margin of the company at consolidated level also improved from 15.94% in FY20 to 19.24% in FY21 owing to reduced selling and travelling expenses. This resulted in improved profitability margins during FY21. Further even the PAT margins also improved from 14.04% during FY20 to 19.04% during FY21 due to decrease in interest cost.

Stable and comfortable financial risk profile

Overall gearing of the company at consolidated level improved to 0.01x as on March 31, 2021 from 0.29x as on March 31, 2020. The company has nil working capital borrowing as on March 31st, 2021 and minimal term debt of Rs. 0.42 crore as on March 31, 2021. Total debt to GCA has improved significantly to 0.03x as on March 2021 as against 0.71x as on March 31, 2020. PBILDT interest coverage ratios remained comfortable at 23.75 times during FY21 against 8.62 times during FY20.

Settlement of Monsanto Issue

During FY2015-16, certain contractual disputes followed by anti-trust and intellectual proceedings were emerged between NSL (including its subsidiaries) and Mahyco Monsanto Biotech (India) Limited (MMBL) in relation to sub license agreements entered by them which were in force during February 2004 and March 2020. The contractual disputed referred to Arbitration and were pending before the Competition Commission of India and intellectual property proceedings filed by the Company were pending before the Delhi High Court, Ranga Reddy District (Telangana) and the Supreme Court. Further the Company had deposited of Rs. 34.01 crore in Delhi High court and Rs. 138.19 in Bombay High Court to secure the disputed claim of MMBL and during the year the group accounted for Rs. 18.02 crore as interest income accrued on the said deposits.

During FY21, the Group and MMBL entered an out of court settlement pursuant to which both parties have settled their disputes and the Group has paid Rs. 184.06 crore towards full and final settlement of the disputed claim of MMBL and post March 31, 2021 the Company has received Rs. 111 crore from MMBL for settlement of claims, disputes and differences in connection with the trait fee.

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

Strong and experienced promoters

NSL group is an established South India based industrial house being promoted by Mr. M Prabhakara Rao who has more than two decades of experience in the seed business and has been on advisory board of several major seed industry associations operating in the country. He is also the seed industry representative on Cotton Advisory Board. NSL group has diversified business portfolio with presence in hybrid/open pollinated seeds, cotton ginning & pressing, textiles, sugar, real estate infrastructure, power (wind, hydel and biomass).

Established track record supported by professional and qualified management

NSL group has about three decades of presence in the Indian Seeds industry. Cotton hybrid seeds are the major products and NSL has about 260 varieties of approved hybrid commercial cotton seeds out of 641, approved by the Genetic Engineering Approval Committee (GEAC) under the Ministry of Environment & Forests, Govt. of India. NSL has a professionally managed board. It is governed by a seven-member board with three of them belonging to the promoter's family, one whole-time director and three independent directors. All the directors are highly qualified professionals with long industry experience. The board is further assisted by qualified professionals down the hierarchy.

Strong R&D facilities

NSL has well equipped R&D facilities comprising biotechnology, seed testing and quality testing labs at more than six locations in the country. The main research centre located at Kompally, Hyderabad is accredited by the International Seed Testing Association. Besides, the company has multi location trial centres, Grow out Test (GoT) farms (spread across 450 acres) to test the genetic purity of a seed sample. NSL also has in place collaboration with crop research institutes viz. IRRI Philippines, NDSU USA, Plant research international – Netherlands, CAMBIA – Australia, Indian Council of Agricultural Research, International Crop Research Institute for the Semi-Arid Tropics (ICRISAT), etc. which facilitates research activities. Besides, NSL has 11 seed processing units which facilitate increased operational efficiency. The company focuses its R&D efforts on developing new products as well as addressing gaps in technology by integrating traditional breeding techniques and modern technology. The company emphasizes on higher yields, product quality, insect and disease tolerance, drought tolerance and expedient results.

Strong & efficient marketing network

The company has strong sales & marketing network consisting of 10 regional office, 7 Carrying & Forwarding (C&F) agents, 6830 distributors and more than 65,000 dealers & sub-dealers spread across 17 states of the country. Besides, NSL has tie up with various agricultural institutions and has partnered with several institutions viz. Krishak Bharati Cooperative limited, ICRISAT, National Seed Corporation, ITC, Hariyali and Coromandel International Limited to increase its presence.

Existence of own germplasm

The major raw material for hybridization process is germplasm (stored as seed collection). Once desired traits are achieved, the hybrid seeds are multiplied by cultivating them in fields. NSL has developed its own germplasm for the different varieties of hybrid seeds.

Geographically diversified production centres

The production centres of NSL are geographically diversified across various states in India for different crops. Currently, the company produces seeds in states like Gujarat, Andhra Pradesh, Telangana, Odisha, Maharashtra, Tamil Nadu and Uttarakhand which are located in different agro-climatic zones of the country. This diversification helps the company to mitigate risk to a certain extent if there is any disturbance in production of seeds on account of vagaries of monsoons. The seed production area of the company is spread over in about 95,000 acres with about 98,000 seed growers across India having partnered with the company in producing seeds.

Geographically diversified product portfolio albeit revenue concentration towards cotton seeds

NSL has presence in about 17 states in the country and the revenue is diversified across all the states with Madhya Pradesh, Telangana, Maharashtra, Uttar Pradesh and Andhra Pradesh together contributing around 59.00% of total sales in FY21 as against 46.09% of total sales in FY20.

Further, NSL derives major proportion of its revenues from cotton segment and is the largest player in cotton segment in the country. However, the company has strong presence in other segments such as vegetable seeds and field crops which include Maize, Paddy, Wheat, Bajra, Jowar etc. The revenue contribution from the cotton seeds has been reducing year on year. Hybrid cotton seeds (BT I & BT II) constituted about 42.65% of sales in FY21 (as against 49.98% of sales in FY20). However, the company is increasing its focus on other crops and is strengthening research efforts on paddy, maize and sunflower crop seeds. Nevertheless, cotton would continue to dominate the product portfolio of NSL for short to medium term.

Key Rating Weaknesses**Elongated operating cycle**

The operating cycle of the company at consolidated level has remained at similar levels of 194 days during FY21 from 190 days during FY20. However, average inventory holding days still remains on the higher side at 279 days during FY21 as the company has to maintain huge inventory during Q4 of the financial year in order to sell them during beginning of Kharif season (June to October) and also to mitigate the risk arising from unexpected unseasonal vagaries of monsoons. As on March 31, 2021, the company had Rs. 133.33 crore of debtors outstanding.

Dependent on vagaries of nature

The business of NSL is seasonal and extremely dependent on the rainfall and other climatic conditions (necessary for cultivation of cotton and other crops). Cotton seed, the major revenue earner, is an agricultural seasonal commodity with major portion of revenue (about 65%) accruing during the first quarter of the year. As such the profitability is susceptible to crop failure in any particular season. However, the company has presence in about 16 States and in areas which are well irrigated which insulates it against the monsoon risk to a certain extent.

Liquidity: Strong

Liquidity is marked superior with gross cash accruals of Rs.180.44 crore in FY21 against negligible repayment obligations of Rs. 0.15 crore during FY22. The company has cash to the tune of Rs. 9.83 crore and liquid mutual funds investments of Rs. 79.92 crore as on March 31st, 2021. With a gearing of 0.01 times as of March 31, 2021, the issuer has sufficient gearing headroom, to raise additional debt for its capex. Further there has been no utilization of working capital limits during the past 12 months ending December 2021.

Analytical approach:

Consolidated financial statements based on financials of NSL, its subsidiaries as provided namely Pravardhan Seeds Private Limited, Yaaganti Seeds Private Limited, Prabhat Agri Biotech Limited, Asian Agri Genetics Limited, Fortune Hybrid Seeds Limited, Jubilee Real Projects (India) Private Limited, Global Agrigenetics India Private Limited, PT Nuziveedu Indonesia and its associates namely Swarnabharat Bio-technics Private Limited and Swadeshi Bio-technics Limited are considered as mostly these companies are in similar line of business i.e. manufacturing of seeds and are managed by same promoters.

Applicable Criteria

[Policy on default recognition](#)

[Consolidation](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

About the Company

Nuziveedu Seeds Ltd. (NSL) incorporated in March 2008 belongs to NSL Group of Hyderabad. NSL group was promoted by Mr. M Prabhakara Rao who has more than three decades of experience in the seed business and has been on advisory board of several major seed industry associations operating in the country. NSL is engaged in production, processing and selling of hybrid/open pollinated seeds of various crops and (cotton, maize, paddy, jowar, bajra, sunflower, wheat, mustard, etc) and vegetables (brinjal, chillies, tomato, ladyfinger and cabbage).

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	860.08	868.21	449.51
PBILDT	137.08	167.05	16.33
PAT	120.72	165.35	8.38
Overall gearing (times)	0.29	0.01	0.01
Interest coverage (times)	8.62	23.75	60.48

A: Audited

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 for this company: Annexure 4

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		-	-	-	50.00	CARE A+; 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 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	50.00	CARE A+; Stable	-	1)CARE A+; Stable (04-Feb-21)	1)CARE A; Stable (10-Dec-19) 2)CARE A+ (CWN) (17-Oct-19)	1)CARE A+; Stable (29-Mar-19) 2)CARE A+; Stable (02-May-18) 3)CARE A+; Stable; ISSUER NOT COOPERATING* (03-Apr-18)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (10-Dec-19) 2)CARE A+ (CWN) (17-Oct-19)	1)CARE A+; Stable (29-Mar-19) 2)CARE A+; Stable (02-May-18) 3)CARE A+; Stable; ISSUER NOT COOPERATING* (03-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable**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

Annexure 5: Bank Lender Details for this CompanyTo view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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