

## Chaitanya Seeds

November 30,2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	10.00	CARE BB-; Stable (Double B Minus; Outlook: Stable )	Reaffirmed
<b>Total Bank Facilities</b>	<b>10.00</b> <b>(Rs. Ten Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to bank facilities of Chaitanya Seeds (CS) continues to be tempered by small scale of operations and thin operating margins albeit improvement in FY21, leveraged capital structure and weak debt coverage indicators, elongated operating cycle during the review period, Seasonality associated with agro-commodities and presence in highly fragmented and government regulated industry, constitution of a partnership concern with risk of withdrawal of capital. The ratings, however, derive strength from Long track record of the partners and qualified management and outlook seeds industry

### Rating Sensitivities

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

- Increase in scale of operations beyond Rs.50.00 crore while maintaining its profitability margins beyond 3%.
- Overall gearing below 1.50x on a sustained basis.

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

- Any un-envisaged debt funded capex/additional debt availed by the firm resulting in deterioration of solvency ratio.

### Detailed description of the key rating drivers

#### **Key Rating Weaknesses**

#### **Small scale of operations and thin operating margins albeit improvement in FY21**

The scale of operations of the firm remained small marked by total operating income of Rs. 34.84 crore in FY21 as against Rs 35.94 crore in FY20 coupled with lower net worth base of Rs. 3.28 crore as on March 31,2021 as compared to other peers in the industry. The company achieved a total operating income of ~Rs.32.00 crore and expecting to achieve a TOI of ~RS. 40.00crore in FY22

Further, the operating margins (PBILDT) improved to 3.95% in FY21 from 3.67% in FY20 on account of higher realizations and PAT margins remained at 0.48% in FY21 as against 0.49% in FY20, however continues to remain thin.

#### **Leveraged capital structure and weak debt coverage indicators**

The capital structure of the firm marked by overall gearing ratio deteriorated and stood at 2.87x as on March 31, 2021 due to increase in overall debt from Rs 6.43 crore to Rs 9.41 crore, which includes covid emergency line of credit of Rs 1.49 crore, higher utilization of working capital limits at Rs 7.79 crore as against Rs 6.43 crore as on March 31,2020 and vehicle loans.

Due to above mentioned reason, the debt coverage indicators of the firm have remained weak and marked by Total debt/GCA has deteriorated and stood at 21.21x in FY21. However, Interest coverage of the firm has marginally improved and stood at 1.62x in FY21 due to increase in PBILDT absolute terms.

#### **Elongated operating cycle during the review period**

The operating cycle of the firm has been elongated during the review period. The operating cycle of the firm has elongated from 98 days in FY20 to 118 days in FY21 on account of deterioration of average inventory period from 98 days in FY20 to 115 days in FY21 to meet the customer demands. The firm receives the payment from its customers within 10 to 15 days and makes the payment to its creditors in 15 to 20 days. The average utilization of the firm for the last 12 months ended October 31, 2021 stood at ~90% as confirmed by the banker.

#### **Seasonality associated with agro commodities and presence in highly fragmented and government regulated industry**

As the firm is engaged in the business of agriculture commodities, the prices of agriculture commodities remained fluctuating and depend on production yield, demand of the commodities and vagaries of weather. Hence, profitability of the company is exposed to vulnerability in prices of agriculture commodities. Further, the business of the firm is highly fragmented and competitive in nature as evident by the presence of numerous unorganized and few organized players. The entry barriers in

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

this industry are very low on account of low capital investment and technological requirement. Due to this, the players in the industry do not have any pricing power. Further, the industry is characterized by high degree of government control both in procurement and sales for agriculture commodities. Government of India (Gol) decides the Minimum Support Price (MSP) payable to farmers.

#### ***Impact of COVID-19***

Impact of covid-19 resulted in stable revenue at Rs 34.84 crore in FY21 as against Rs 35.94 crore in FY20, primarily due to restrictions on account of lockdown imposed by government. The operating cycle deteriorated from 98 days in FY20 to 118 days in FY21 is primarily due to increase in inventory level from Rs 9.63 crore to Rs 11.68 crore in FY21, which was funded by realization of advances and higher average utilization of fund based working capital limits at 90%. Further, CS has availed GECL loan (COVID-19 loans) provided by lenders. Partners have infused Rs.0.33 crore during FY21.

#### ***Constitution of a partnership concern with risk of withdrawal of capital***

CS being a partnership firm is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the partners. Moreover, partnership firm business has restricted avenues to raise capital which could prove a hindrance to its growth. However, the partners have infused of Rs.0.33 crore as on March 31,2021(Prov.).

#### **Key Rating Strengths**

##### ***Long track record of the partners and qualified management***

Mr. V. Rajeshwar Rao, the managing partner of CS, holds a bachelor's degree in Agriculture and has around 25 years of experience in the seed processing industry. Mr. V. Srikanth, the working partner, holds a Master's degree in Business Administration (Marketing) and has around 9 years of experience in this segment. Mr. V. Rajeshwar Rao takes care of production and Mr. V. Srikanth looks after the marketing activities. The partners also have an associate concern, namely Chaitanya Seeds Private Limited (CARE B+;Stable assigned on December 28,2020) which was incorporated in 2000, is engaged in processing of seeds on job work basis for MNC contractors. Due to long term presence of promoters in the market, they have established good relations with the customers and suppliers

##### ***Government policies relating to seed industry***

The Indian seed market has witnessed a major restructuring as a result of the implementation of some progressive policies by the government. Seed Development, 1988 and National Seed Policy, 2002 have helped in strengthening the Indian seed industry in the areas of R&D, product development, supply chain management and quality assurance. Owing to this, India has emerged as the fifth largest seed market across the globe. Moreover, the active participation of both, public and private sectors has also played a vital role in laying a strong foundation of the industry. This includes launching initiatives to promote the use of hybrid seeds among the farmers who had earlier used outmoded open pollinated varieties. Some other growth-inducing forces, such as growth in income levels, commercialization of agriculture, patent protection systems and intellectual rights over plant varieties, have given a great push to the market. Owing to these factors, the Indian seed market is further expected to exhibit strong growth during 2021-2026

##### ***Outlook of Seed Industry***

The Indian seed market is projected to grow at a CAGR of 6.8% during the forecast period (2021-2026). There has been an increase in hybrid seed penetration in multiple crops, in order to address the rising food demand-supply mismatch in the country. Due to stagnant growth observed in the arable land and a constantly increasing population, the per capita arable land has been declining. These factors, along with poor crop productivity, are likely to lead to pressure on food supply in the country.

In India, hybrid seed penetration is high in cotton (90%), corn (60%), limited cereals, such as sorghum and pearl millet, and oilseeds, such as sunflower (hybridization 80%). However, penetration is still very low in major cereals, such as paddy and wheat (5%). Cotton hybridization is almost reaching saturation, as Bt cotton is sown over 90% of the cotton-producing area in the country. Hybridizations in corn, paddy, and vegetables are estimated to drive the sector's growth during the forecast period.

##### ***Liquidity analysis: Stretched***

The stretched liquidity position is marked by increased inventory level and debtor receivable while operating has marginally declined due to impact covid-19 resulting in temporary cashflow mismatch during FY21, which has been addressed by higher average working capital utilization at 90%, availing emergency line of credit and moratorium (April 2020 to August 2020) provided by lenders under covid-19 relief and infusion of capital by partners of Rs.0.80 crore in 7MFY22. Having free cash balance of Rs 1.27 crore as on March 31,2021 coupled with expected GCA of 0.47 crore for FY22, the firm liquidity is adequate to meet repayment obligation of Rs 0.41 crore.

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Manufacturing Companies](#)

### About the company

Chaitanya Seeds (CS) was established as a partnership concern by Mr. V. Rajeshwar Rao, Ms. V. Saroja and Mr. V. Srikanth on July 22, 2006 with a profit sharing ratio of 35:30:35. The firm is engaged in processing and trading of seeds. The installed capacity of CS stood at Approx. 350 MT per day as of November 30, 2020 CS procures the breeder seeds from the state and central authorities, which are sold to the farmers for up-gradation to foundation seeds. The farmers are located in around Karimnagar district, Telangana. The foundation seeds which are purchased from the farmers, is processed by CS in its plant located in Karimnagar, Telangana before they are packed and stored for sales. The firm markets the products in the name 'Chaitanya Seeds' to the wholesalers located in Uttar Pradesh, Andhra Pradesh, Madhya Pradesh, Bihar, West Bengal, Orissa, Tamil Nadu, Telangana and Karnataka.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (Prov)	7MFY22 (UA)
Total operating income	35.94	34.84	32.00
PBILDT	1.32	1.38	NA
PAT	0.18	0.17	NA
Overall gearing (times)	2.32	2.87	NA
Interest coverage (times)	1.58	1.62	NA

**A: Audit; Prov. Provisional; UA: Un-audited NA: Not 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 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		-	-	-	10.00	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 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	-	-	-	-	1)Withdrawn (04-Jun-19)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (28-Feb-19)
2	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable	-	1)CARE BB-; Stable (18-Dec-20)	1)CARE BB-; Stable (06-Nov-19)	-

**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 Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. 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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