

Chaitanya Seeds

March 07, 2018

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	8.00	CARE BB-; Stable (Double B Minus; Outlook : Stable)	Assigned
Total Facilities	8.00 (Rupees Eight crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Chaitanya Seeds (CS) are primarily tempered by small size of operations with fluctuating operating income and profitability margins, seasonality associated with agro commodities and presence in highly fragmented and government regulated industry and constitution of a partnership concern with risk of withdrawal of capital.

However, the rating derives comfort from experienced and qualified management, comfortable capital structure and moderate debt coverage indicators and comfortable operating cycle days

Going forward, the firm's ability to improve its scale of operations, profitability, capital structure and debt coverage indicators, expand its domestic and international clientele base and efficiently utilize its working capital requirements are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small size of operations with fluctuating operating income and profitability margins

The firm has small size of operations marked by a low net worth base of Rs.2.79 crore as of March 31, 2017, with a slight increase from Rs.2.71 crore as of March 31, 2016. The networth of CS has been increasing over the review period mainly on account of accretion of profits from business operations.

The total operating income of firm has been fluctuating during the review period. The fluctuations are mainly on account of changeableness of seasonal conditions. Telangana faced deficient rainfall for the second consecutive year during FY16, resulting in severe drought which led to lower production of paddy and hence the dip in the operating income by 13% to Rs.24.89 crore from Rs.28.64 crore during FY15. Telangana state recorded 47% excess rain in June 2016 and 107% excess in September 2016 and experienced maximum days of active to vigorous monsoon conditions during the south west monsoon season which resulted better Kharif harvesting and the operating income of CS also improved in line with better monsoons to Rs.28.31 crore during FY17.

There has been a high fluctuation in the cost of production for paddy crop over a period of time. The production cost per quintal of paddy saw a steep increase over seven years. The farmers were paid a price above the MSP (Minimum Support Price) fixed by the government in order that specifications regarding the maintenance of the crop was ensured and regulations for obtaining certifications were adhered to without deviations. With fluctuating purchase costs and increasing employee costs the profit of the firm was declining in absolute terms during the review period. Due to fluctuations in the operating income the PBILDT margin was also fluctuating in the range of 3-5% during the review

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

period. The PAT margin was also fluctuating in line with the PBILDT margin in the range of 0.3-0.4% during the review period.

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 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 (GoI) decides the Minimum Support Price (MSP) payable to farmers.

Constitution of a partnership concern with risk of withdrawal of capital

The firm was established as a partnership concern and the risk of withdrawal of partner's capital prevails. There is parity between the existence of the firm and the life of the partners. The partners had withdrawn capital to the extent of Rs.0.12 crore during the review period.

Key Rating Strengths

Experienced 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 of CS, holds a Master's degree in Business Administration (Marketing) and has around 8 years of experience in this segment. Mr. V. Rajeshwar Rao takes care of production and Mr. V. Srikanth looks after the marketing activities of CS. The partners also have an associate concern, namely Chaitanya Seeds Private Limited which was incorporated in 2000 which is into processing of seeds on job work basis for MNC contractors. Due to long term presence of promoters in the market, they have established relations with its customers and suppliers

Comfortable capital structure and moderate debt coverage indicators

The capital structure of the firm marked by overall gearing stood comfortable at 0.49x as on March 31, 2017, improved from 1.35x as on March 31, 2016 due to lower dependency on working capital bank borrowings as on balance sheet dates and repayment of term loans. The total debt/GCA stood moderate at 3.98x in FY17 improved from 10.72x in FY16 on the back of decline in debt levels coupled with stable cash accruals. The interest and finance charges declined with the repayment of loans and hence the interest coverage ratio improved from 1.47x in FY16 to 1.64x in FY17.

Comfortable operating cycle days

The breeder seeds and foundation seeds are procured predominantly on cash basis. While on sales, CS extends credit upto 10-30 days depending on the customer. The finished goods are sold to wholesalers in different states and the seeds have a life of about 9 months. Due to geographically diversified clientele base, the inventory is stocked for about 2 months. Due to comfortable collection and creditor period, the operating cycle also stood comfortable at 56 days in FY17 as against 107 days in FY16. The working capital utilization was high at 90% during the Rabi harvesting season of paddy which is from April to August and stood moderate at 70% during the Kharif harvesting season which is from November to December.

Analytical Approach : Standalone

Applicable criteria

[Criteria on assigning Outlook to Credit ratings](#)
[CARE's policy on Default Recognition](#)
[Financial Ratios – Non-Financial Sector](#)
[Rating Methodology – 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 marketing of Paddy. The installed capacity of CS stood at Approx. 300 MT per day as of February 22, 2018. CS procures the breeder seeds from the state and central authorities, which are sold to the farmers for up-gration 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)	FY16 (A)	FY17 (A)
Total operating income	24.89	28.31
PBILDT	1.22	1.05
PAT	0.10	0.13
Overall gearing (times)	1.35	0.49
Interest coverage (times)	1.47	1.64

A: Audited

Status of non-cooperation with previous CRA: Nil

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the company at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	8.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	8.00	CARE BB-; Stable	-	-	-	-

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