

Chaitanya Seeds

November 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	10.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Total Facilities	10.00 (Rs. Ten Crore Only)		

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, leveraged capital structure and satisfactory debt coverage indicators, 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, and comfortable operating cycle days.

Key Rating Sensitivities:

Positive Factors

- Increase in scale of operations as marked by total operating income.
- Total debt to gross cash accruals, total outside liabilities to net-worth or debt to PBILDT reducing on a sustained basis

Negative Factors

- Declining in profitability margins as marked by PBILDT margin

Detailed description of the key rating drivers

Key Rating Weaknesses

Small size of operations with fluctuating operating income and profitability margins

The scale of operations of the firm remained small and total operating income (TOI) of the firm has been fluctuating during the review period. The fluctuations are mainly on account of changeableness of seasonal conditions. Telangana faced deficient rainfall during FY18, which led to lower production of paddy and hence the dip in the operating income by 6% to Rs.26.56 crore in FY18 from Rs.28.31 crore during FY17. 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. The PBILDT margin of the firm fluctuated in the range of 3.69%-4.92% during the review period due to fluctuation in the cost of production for paddy crop over a period of time. 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. The PAT margin increased from 0.41% in FY16 to 0.44% in FY17 due to decline in interest and depreciation provision on account of repayment of term loans and low utilization of working capital borrowings. Further the margin improved to 0.51% in FY18 owing to increase in PBILDT by absolute terms.

Leveraged capital structure and satisfactory debt coverage indicators

The capital structure of the firm marked by overall gearing stood leveraged and deteriorated from 0.49x as on March 31, 2017 to 1.89x as on March 31, 2018 due to increase in utilization of working capital bank borrowings as on balance sheet dates. 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 deteriorated from 4.01x in FY17 to 12.30x in FY18 due to increase in debt levels. The interest coverage ratio marginally deteriorated from 1.64x in FY17 to 1.62x in FY18. The total debt/GCA stood moderate at 3.98x in FY17 improved from 10.55x 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.

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

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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.0.39 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, 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

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 quantum of sales made. 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 57 days in FY18. The average utilization of the firm for the last 6 months ended June 30, 2019 stood at 43%.

Liquidity Analysis: Adequate

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash balance of Rs.1.95 crore. Its bank limits are utilized to the extent of 50%, supported by above unity current ratio.

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. 350 MT per day as of July 18, 2019. 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)	FY17 (A)	FY18 (A)
Total operating income	28.31	26.56
PBILDT	1.04	1.13
PAT	0.12	0.13
Overall gearing (times)	0.49	1.89
Interest coverage (times)	1.64	1.62

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

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	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	-	-	1)Withdrawn (04-Jun-19)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (28-Feb-19)	1)CARE BB-; Stable (07-Mar-18)	-
2.	Fund-based - LT-Cash Credit	LT	10.00	CARE BB-; Stable	-	-	-	-

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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