

Chaitanya Seeds
 December 18, 2020
Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Chaitanya Seeds (CS) continue to be tempered by Small scale of operations and thin profitability margins albeit improved during FY20, 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 rating also factors in increasing total operating income during the review period. The rating however, derive its strengths from Long track record of the partners and qualified management.

Rating Sensitivities**Positive Factors**

- Increase in scale of operations marked by total operating income increasing beyond Rs.50.00 crores while improving its profitability margins leads to substantial increase in GCA.
- Improve the gearing ratio to below 1.50x on a sustained basis.

Negative Factors

- Significant decline in profitability margin marked by PBILDT margin falling below 3% in future.
- Any major debt funded capex resulting to deterioration in capital structure with overall gearing leveraging beyond 2.50 times in any of the future years.

Detailed description of the key rating drivers**Key Rating Weaknesses****Small scale of operations and thin profitability margins albeit improved during FY20**

The scale of operations of the firm remained small marked by total operating income of Rs. 35.84 crore in FY20 coupled with low net worth of Rs. 2.77 crore as on March 31, 2020 as compared to other peers in the industry.

The Profitability margins of the firm continues to remain thin marked by PBILDT margin of the firm stood at 3.51% and 3.67% respectively in FY19 and FY20 and the PAT margin of the firm remained below unity at 0.49% in FY20 as compared to 0.51% in FY18 due to increase in interest costs.

Leveraged capital structure and weak debt coverage indicators

The capital structure of the firm marked by overall gearing ratio deteriorated from 1.89x as on March 31, 2018 to 2.32x as on March 31, 2020 due to higher outstanding working capital borrowings as on closing balance sheet date i.e., Rs.. 6.43 crore.

Due to above mentioned reason, the debt coverage indicators deteriorated and remained weak during review period. The total debt/GCA and PBILDT interest coverage ratio has deteriorated from 12.30x and 1.62x respectively in FY18 to 16.18x and 1.58x respectively in FY20. The total debt/CFO stood negative at -126.55x in FY20.

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 57 days in FY18 to 98 days in FY20 at the back of increase in average inventory period from 60 days in FY18 to 98 days in FY20 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 November 30, 2020 stood at 80% 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 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.

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 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.

Increasing total operating income during the review period

The total operating income of the firm has increased during the review period. The total operating income of the firm has increased from Rs. 26.56 crore in FY18 to Rs. 35.94 crore in FY20 on account of increase in scale of operations due to increase in bulk orders from the old customers.

Liquidity: Stretched

The liquidity profile of the firm stood stretched. The firm has cash balance of Rs. 0.15 crore. Furthermore, the current ratio of the firm stood at 0.97x as on March 31, 2020. The average utilization of working capital by firm is 80% for the last twelve months ended November 30, 2020. The firm has availed moratorium period from March to August 2020 as confirmed by the banker and have availed Rs. 1.48 crore as GECL loan.

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](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the firm

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-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)	31-03-2019	31-03-2020
	A	A
Total operating income	33.13	35.94
PBILDT	1.16	1.32
PAT	0.16	0.18
Overall gearing (times)	1.94	2.32
Interest coverage (times)	1.65	1.58

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History (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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
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	-	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 Firm**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple

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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