JK Agri Genetics Limited

January 13, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	91.94	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	Reaffirmed
Short-term Bank Facilities	2.00	**CARE A3+ (A Three Plus)**	Reaffirmed
Total	**93.94 (Rupees Ninety three crore and Ninety Four lakh only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale

The ratings assigned to the bank facilities of JK Agri Genetics Limited (JKAL) continue to draw comfort from diversified product mix of JKAL with a focus on high profit yielding vegetable seed segment. The rating reaffirmation also factors in the experienced promoter group, long track record of operations, established brand name, distribution network and strong in-house research and development along with technical collaboration with leading institutes. These rating strengths are, however, partially offset by the seasonality and vulnerability of sales to agro-climatic conditions, elongated operating cycle and the regulated nature of the industry.

Going forward, sustainability of profitability without adverse impact on the capital structure and effective management of the working capital cycle would remain the key rating sensitivities.

Detailed description of the key rating drivers

JKAL benefits by being a part of the JK group, which is more than 100 years old and employs more than 50,000 people across the group. JKAL has an experienced team of highly qualified management personnel having over two decades of experience in the seeds production business. The Board of JKAL consists of ten directors and is headed by Mr Bharat Hari Singhania.

JKAL has established breeding facilities for field crops like Cotton, Maize, Paddy, Pearl millet, Sorghum, Wheat and Mustard, Sunflower, etc. In addition, the company also has breeding facilities for vegetables like Tomato, Okra, Brinjal, Chilli, Capsicum, Melons and Gourds. JKAL has a team of scientists working across 7 breeding research centres and 35 multi-location trial centres covering all agro-climatic zones of India. JKAL spent around 7% of its total income on research & development during FY16 (refers to the period April 1 to March 31).

The 'JK' brand name is well-known across the country. 'JK seeds' is also a very established brand name among the farming community. JKAL has an extensive dealer-distributor network spread across all the major seed markets in India. There are around 3000 distributors and 45,000 dealers across 19 states. JKAL also has tied up with certain multi-nationals as well as strong domestic companies for co-marketing and co-promotion. The company is also catering to the international markets in South Asia and Africa.

The major sales concentration of JKAL is in the quarter ending June which accounts for around 75-80% of the total sales. Furthermore, the sales and profitability of JKAL are vulnerable to agro-climatic conditions prevailing in the country. JKAL has a product range which includes the major Kharif and Rabi crops along with several hybrid seeds for vegetables which are sown in between the seasons. However, the major concentration of sales remains in the Kharif season, which includes cotton and paddy seeds. Due to the lack of adequate irrigation facility in the country, the sales and consumption of the seeds is highly dependent on the prevailing monsoon and other agro-climatic conditions in the country. However, with company's increased focus on vegetables for which the sales usually happen during Q3 and Q4, the operating losses have reduced during these quarters.

The total operation income of the company during FY16 was Rs 190.20 crore as against Rs.207.49 crore in FY15. There was a decline of 8% registered in the total operating income during FY16 on account of poor monsoons. Poor monsoons coupled with relatively non-remunerative prices of the produce & lack of farm credit has put financial pressure on farmers & has reduced their overall affordability. The PBILDT margin declined from 14.47% in FY15 to 12.70% in FY16 on account of decline in income. JKAL is increasing its focus on vegetables and hybrid seeds segment to reduce the losses &

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

also to improve overall profitability due to better price realisation in this segment in comparison with any other product in JKAL's portfolio. The percentage share of vegetables in the total income of JKAL has increased from 25% in FY15 to 32% in FY16. The overall gearing improved to 1.03x (PY:1.20x) on account of increase in the net-worth due to accretion of profits.

Due to several interlinked processes involved in farming, seed production and processing, the production process of JKAL is quite long which leads to a long working capital cycle of almost 300 days. Furthermore, the business of the company is seasonal in nature with a majority of the sales getting booked in June quarter, which results in high inventory holding in the March quarter. The distribution of seeds remains a key constituent of the seeds production and manufacturing business. JKAL ensures adequate availability of seeds with carry and forward agents and distributors to ensure ample sales. In line with the same, the finished seeds are also sold across to dealers/distributors by extending credit periods.

The seed production and marketing industry being a priority sector, agriculture-related activity is regulated by the government. The companies need to obtain prior registration for the seeds to be produced and marketed. Before coming out in the market, a new hybrid variety of seed needs to undergo a rigorous process which involves registration, submission of trial run data and periodic testing by the different government institutions. Also, the prices of seeds of cotton are regulated by the different state governments and the buy-back price for foundation seeds is also regulated by the government. Furthermore, use of genetically modified crops for field crops and vegetables is also subject to government regulations.

Analytical Approach Followed: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[CARE's methodology for manufacturing companies]
[Criteria for Short Term Instruments]
[Financial ratios – Non-Financial Sector]

Company Background
JKAL was established in the year 1989 as an erstwhile division of JK Tyres & Industries Ltd (JKTL) and later converted to a private limited company in 1993. JKAL is engaged in the business of research, production and marketing of hybrid seeds. JKAL has a wide portfolio encompassing all the major crops including bajra, jowar, cotton, hybrid rice, maize, paddy, sunflower, mustard and vegetables (including tomato, chilli, okra, brinjal, gourds and melons).

For FY16, JKAL reported a net profit of Rs 8.02 crore on a total income of Rs 190.20 crore as against a net profit of Rs.12.22 crore on a total income of Rs 207.49 crore for FY15. During H1FY17, JKAL's total income stood at Rs.126.24 crore with a net profit of Rs 13.25 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
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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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-Working Capital Limits	-	-	-	75.30	CARE BBB+; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A3+
Term Loan-Long Term	-	-	December 2018	16.64	CARE BBB+; 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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Working Capital Limits	LT	75.30	CARE BBB+; Stable	-	1)CARE BBB+ (January 22, 2016)	1)CARE BBB+ (December 11, 2014)	1)CARE BBB (September 11, 2013)
2.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A3+	-	1)CARE A3+ (January 22, 2016)	1)CARE A3+ (December 11, 2014)	1)CARE A3 (September 11, 2013)
3.	Term Loan-Long-term	LT	16.64	CARE BBB+; Stable	-	1)CARE BBB+ (January 22, 2016)	1)CARE BBB+ (December 11, 2014)	1)CARE BBB (September 11, 2013)

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