JK Agri Genetics Limited

September 27, 2019

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Remarks
Long term Bank Facilities	80.00 (reduced from Rs. 80.30 crore)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE A-; Stable(Single A Minus; Outlook: Stable)**
Short term Bank Facilities - Proposed	2.00	**CARE A3+ (A Three Plus)**	**Revised from CARE A2 (A Two)**
Total	**82.00 (Rs. Eighty Two crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of JK Agri Genetics Limited (JKAL) factors in moderation in the financial risk profile of the company in FY19 as reflected by its declining sales and profitability and deterioration in its debt servicing coverage indicator. The revision in the ratings also takes into account its elongated operating cycle owing to high pending dues from various state governments. The rating continues to factor in regulated nature of the industry and vulnerability of sales to seasonality and agro-chemical conditions.

The ratings, however, continues to factor in its experienced promoter group, established brand name with extensive distribution network, diversified product mix and strong in-house R&D (research and development) division along with technical collaboration with leading institutes.

Going forward, the ability of the company to increase its scale of operations and to enhance its overall profitability margins without any 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

Key Rating Strengths

Experienced promoter group and long track record of operations

JKAL benefits by being a part of the JK Group (East), which is more than 100 years old and employs more than 50,000 people across the group**.** The group has diversified business interests including cement (through its group company JK Lakshmi Cement Ltd (JKLC)), auto ancillary (through its group company JK Tyre & Industries Ltd), paper (through its group company JK Paper Ltd), investment (through its group company Bengal & Assam Limited) and fan belts (through its group company JK Fenner Limited).

JKAL has an experienced team of qualified management personnel having over two decades of experience in the seeds production business. The Board of JKAL consists of nine non-executive directors and one executive director, headed by Mr Bharat Hari Singhania. Shri Sanjay Kumar Gupta, the whole time director (CEO) of the company has resigned from the services of company w.e.f May 22, 2019 and Board of directors on May 23, 2019 has appointed Dr. Gyanendra Shukla as President and Director (CEO) w.e.f May 23, 2019. Dr. Gyanendra Shukla is a PhD in Botany/ Genetics (from CSJM University, Kanpur) and MBA from S.P.Jain Institute of Management and Research, Mumbai and has experience of almost three decades working with leading multinational Agri inputs companies like Monsanto, Bayer Corporation and Syngenta.

Strong in-house R&D division and technical collaboration with leading institutes

JKAL has established breeding facilities for field crops like Cotton, Maize, Paddy, Pearl millet, Sorghum, Wheat and Mustard, Sunflower, etc. The company also has breeding facilities for vegetables like Tomato, Okra, Brinjal, Chilli, Capsicum, Melons and Gourds. JKAL has a team of over 80 scientists working across 7 breeding research centres and 23 multi-location trial centers covering all agro-climatic zones of India. The research centres are located in Sriganganagar, Sonepat, Lucknow, Hyderabad, Bangalore, Dharwad and Jaipur. JKAL has several collaborations with national and international institutes like Dr. Balasaheb Sawant Konkan Krishi Vidyapeeth, Dr. Panjabrao Deshmukh Krishi Vidyapeeth, Directorate of Rapeseed-Mustard Research, Indian Agricultural Research Institute, International Crops Research Institute for the Semi-Arid Tropics, International Rice Research Institute, Seed Vision, etc, for research and development. JKAL has spent around 7.15% of its total income on research & development during FY19 (PY: 7.07%). The R&D team has delivered good hybrids in Cotton, Corn, Paddy, Bajra and new varieties in Mustard and Wheat.

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

The Company has launched new hybrids in Maize and Paddy which will be catering to segments where its presence was not significant in FY19. R&D teams of the company are working on hybrids suitable for similar agro climatic conditions in overseas markets.

Established brand name and distribution network

The 'JK' brand name is well known across the country. 'JK seeds' is also an established brand name among the farming community. JKAL has an extensive dealer-distributor network spread across all the major seed markets in India. The company sells its products across 25 states through a wide distribution of more than 20,000 retailers, 18 C&F and 1500 distributors /wholesalers. 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 (Pakistan, Nepal, Bangladesh and Sri Lanka) and Africa (Sudan, Ethiopia, Swaziland and Mozambique). The approval of BT cotton Hybrid of the company from Sudanese government has opened the doors for the company to enter into African continent for export of BT Cotton.

Diversified product portfolio

JKAL deals in wide range of products involving cotton, field crops like Paddy, Maize, Jowar, Bajra and Vegetables. Such portfolio, besides offering diversity also offers strong value proposition from cyclicality and risk mitigation perspective. The company's portfolio is suitable for both the Kharif and Rabi seasons. The vegetables segment witness peak sales during Q3 and Q4 which tends to recoup the losses during this slack season for other products, allowing the company to insulate itself from cyclicality of the industry to some extent. Share of vegetable segment in total sales had increased from 25% in FY15 to 37.72% in FY17. However, since then it has witnessed a decline from 37.72% in FY17 to 24.02% in FY18 and further to 21.55% in FY19 as the prices of vegetables remained supressed due to overproduction and sudden stoppage of exports of fresh vegetables to some of the neighbouring countries creating a situation of glut in the domestic market. Sales from vegetable segment had declined from Rs. 48.25 crore in FY18 to Rs. 40.57 crore in FY19. However, JKAL plans to continue to lay emphasis on products with higher margins like Vegetables. The cotton seeds scenario in the country continued to face a number of challenges like poor sentiments, continuous droughts leading to poor yields and factors like Pink bollworm has increased the cultivation cost for farmers. As a result there has been a steep decline in the overall cotton production in the country during FY19. Hence, the sales from the cotton seeds business had witnessed a decline from Rs. 53.80 crore in FY18 to Rs. 39.18 crore in FY19 (26.78% of total sales during FY18 to 20.81% of total sales during FY19).

The field crop business continued to grow on the strength of its new launches in Paddy & Bajra Seeds which continue to get traction in the market in all the key areas. The Company is on track to launch new hybrids in Maize and Paddy which will be catering to segments where its presence was not significant. The Company has also been able to improve the realisations and deepen distribution reach in important markets. The revenue from the field crop segment had increased from Rs. 73.72 crore in FY18 to Rs. 74.94 crore in FY19, despite of not so favourable agro climate in India during FY19.

However, the company has undertaken rationalization of its product portfolio and segmentation of markets by elimination of non-profitable territories, partnering with other companies for their specialized products with more focus on high value and high margin hybrids.

Key Rating Weaknesses

Moderation in financial risk profile

The total operating income of the company has decreased by 5.59% to Rs. 191.55 crore in FY19 from Rs. 202.89 crore in FY18 owing to decline in sales of Vegetables seeds and cotton seeds. The company was not able to scale up its new launches and also large portfolio of crop and varieties led to operational complexity. The PBILDT margin of the company was 9.23% in FY19 as against 13.51% in FY18. The decline in profitability margin was attributable to decrease in share of vegetables (from 24.02% of total sales in FY18 to 21.55% of total sales in FY19) which has higher margin and decrease in share of cotton sales (from sales of Rs. 53.8 crores in FY18 to sales of Rs. 39.18 crores in FY19). The majority of the expenses of the company are fixed in nature (R&D expenses, employee expenses and maintenance expenses); the decline in sales with fixed expenses had resulted in decline in PBILDT Margin. The below normal Southwest monsoons and deficient Northeast monsoons impacted the sowing of Kharif and Rabi crops which led to the overall acreage being down by 2.6% in FY19, had affected the scalability of the company. PAT Margins of the company also declined to 2.60% in FY19 from 5.91% in FY18. The interest coverage of the company deteriorated from 3.39x in FY18 to 1.85x in FY19.

Total income from operations amounted to Rs. 112.37 crore in Q1FY20 as against Rs. 121.88 crore in Q1FY19 and PAT stood at Rs. 14.66 crore in Q1FY20 as against Rs. 21.05 crore in Q1FY19. Decline in total operating income is on the account of lower sales to government institutes and corporation.

During FY19, the company had secured new term loan of Rs. 15.00 from IDFC to support the long term working capital requirements. As a result, Total debt of the company increased to Rs 55.26 crore as on March 31, 2019 from Rs 46.34 crore as on March 31, 2018. The overall gearing of the company increased from 0.61x as on March 31, 2018 to 0.69x as on

March 31, 2019. Further, total debt to GCA also weakens from 3.05x during FY18 to 7.85x during FY19 due to increase in total debt and decrease in GCA as well.
Total debt outstanding as on June 30, 2019 stood at Rs. 66.51 crores which constitutes term loan of Rs. 18.04 crore and working capital borrowings of Rs. 48.47 crore.

Moderate Liquidity profile characterized by working capital intensive nature of its operations
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. The distribution of seeds remains a key issue in 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. Further, the business of the company is seasonal in nature with a majority of the sales getting booked in June quarter (63.64% of total operating for the FY19 booked in Q1 FY19) for meeting the farmers requirements of Kharif season, which results in high inventory holding in the March quarter. As on March 31, 2019, total inventory of the company stood at Rs. 131.32 crore (out of which Rs. 73.85 crore is in the form of finished goods) as against Rs. 134.18 crore as on March 31, 2018 (out of which Rs. 53.02 crore is in the form of finished goods).
JKAL has pending dues from various state departments and company also extends high credit period to agents and distributors which leads to high collection period. As on March 31, 2019, the company has gross receivables more than 6 months of Rs 47.59 crore as against Rs. 46.21 crore as on March 31, 2108. However total gross receivables of the company declined from Rs. 118.86 crore as on March 31, 2018 to Rs. 97.33 crore as on March 31, 2019 with decline in total sales.
The operations of the company are working capital intensive and the gap is met through credit period extended by the suppliers up to 170 days (in FY19) and working capital line (with an average utilization of 52.73% - during 12-month period ended on Jun-19). Further, Current Ratio of the company strengthened from 1.19x as on March 31, 2018 to 1.35x as on March 31, 2109 on account of decrease in trade payables and advance from customers. Company takes around 50% of advance from its export customers and also took some advance from private players in domestic market. Cash and bank balance of the company stood at Rs. 4.97 crore as on March 31, 2019 as against Rs. 4.69 crore as on March 31, 2018.

Seasonality and vulnerability of sales to agro-climatic conditions
The major sales concentration of JKAL is in the quarter ending June which accounts for around 55%-65% of the total sales (63.63% in FY19). 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 focus on vegetables for which the sales usually happen during Q3 and Q4, the operating losses tend to recoup during this slack season. Further, the company generally receives back around 25% of its sales as sales return, which majorly happens in second and third quarter.

Regulated nature of industry
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:
Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short-term Instruments
CARE's Methodology for manufacturing companies
CARE's methodology for financial ratios (Non-Financial Sector)

About the Company

JK Agri Genetics Ltd (JKAL) was established in the year 1989 as an erstwhile division of JK Tyres & Industries Ltd (JKTL) and later converted to a public limited company in 2003. 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 (tomato, chilli, okra, brinjal, gourds, melons, etc).

The group companies include JK Lakshmi Cement Ltd (JKLC) rated 'CARE AA-; Stable/ CARE A1+', JK Tyre & Industries Ltd (JKTL) rated 'CARE A; Negative /CARE A1' and Bengal & Assam Company Ltd (BCL) rated 'CARE A+; Positive', JK Paper Ltd rated 'IND A+; Stable; /IND A1+' and Florence Investec Ltd, JK Fenner (India) Ltd (CARE AA-; Stable/ CARE A1+).

Board of Directors of Bengal & Assam Co Ltd have earlier approved a scheme of arrangement between Florence Investech Ltd (Florence), BMF Investments Ltd (BMF), J.K. Fenner (India) Ltd (FIL) and Bengal & Assam Co Ltd ('Transferee Company') and their respective shareholders for Amalgamation of Florence & BMF ('Transferor Companies') with the Transferee Co w.e.f April 01, 2017 ('Appointed Date'). The hearing of the said scheme has already been completed & approved by the NCLT Kolkata earlier on Nov 05, 2018. BACL has got the approval from NCLT Chennai vide order dated May 03, 2019 & the said scheme has become effective on May 24, 2019 upon filing of certified copies of the order with ROC. The impact of the scheme will be given effect retrospectively from the appointed date which is April 01, 2017. After the scheme getting effective JK Agri genetics Ltd is now a subsidiary of BACL with 63.81% being held by BACL.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	202.89	191.55
PBILDT	27.41	17.67
PAT	11.96	4.84
Overall gearing (times)	0.61	0.69
Interest coverage (times)	3.39	1.85

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	-	-	-	65.00	CARE BBB+; Stable
Proposed- Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A3+
Term Loan-Long Term	-	-	-	15.00	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 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	65.00	CARE BBB+; Stable	-	1)CARE A-; Stable (25-Oct-18) 2)CARE A-; Stable (04-Oct-18)	1)CARE A-; Stable (13-Dec-17)	1)CARE BBB+; Stable (13-Jan-17)
2.	Proposed- Non-fund-based - ST-BG/LC	ST	2.00	CARE A3+	-	1)CARE A2 (25-Oct-18)	1)CARE A2 (13-Dec-17)	1)CARE A3+ (13-Jan-17)

						2)CARE A2 (04-Oct-18)		
3.	Term Loan-Long Term	LT	15.00	CARE BBB+; Stable	-	1)CARE A-; Stable (25-Oct-18) 2)CARE A-; Stable (04-Oct-18)	1)CARE A-; Stable (13-Dec-17)	1)CARE BBB+; Stable (13-Jan-17)
4.	Fund-based - ST-Working Capital Demand loan	-	-	-	-	-	1)CARE A2 (13-Dec-17)	-

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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