JK Agri Genetics Limited

October 25, 2018

Ratings

Facilities	**Amount (Rs. Crore)**	**Ratings[1]**	**Remarks**
Long term Bank Facilities	80.30 (86.80)	**CARE A-; Stable (Single A Minus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	2.00 (2.00)	**CARE A2 (A Two)**	**Reaffirmed**
Total	**82.30 (Rs. Eighty two crore and Thirty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating reaffirmation for the bank facilities of JK Agri Genetics Limited (JKAL) factors in the 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. The ratings continue to factor in the moderate financial risk profile as reflected in its comfortable capital structure & coverage indicators.

These rating strengths are, however, partially offset by the seasonality and vulnerability of sales to agro-climatic conditions, elongated operating cycle of the company and the regulated nature of the industry.

Going forward, the ability of the company to improve 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, 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, auto ancillary, paper, investment and fan belts & oil seals. 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 eight non-executive directors and two executive director, headed by Mr Bharat Hari Singhania.

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. 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 6 breeding research centres and 23 multi-location trial centers covering all agro-climatic zones of India. JKAL has several collaborations with national and international institutes like Directorate of Rapeseed-Mustard Research, Indian Agricultural Research Institute, International Crops Research Institute for the Semi-Arid Tropics, International Rice Research Institute, Seed Vision, CIMMYT & AVRDC etc, for research and development. During FY18, the market share expanded for Bajra & Cotton hybrids especially in North and Central Indian Markets. One new Tomato hybrid - JK Ratan continues to make good strides. JKAL has spent around 7.07% of its total income on research & development during FY18 (PY: 6.85%).

Established brand name and distribution network

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 more than 50,000 retailers, 19 C&F and 4000 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 and Africa.

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

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 have increased from 25% in FY15 to 38% in FY17. However, the share of vegetable segment in total sales decreased to 24% in FY18 as during the year the prices of vegetables remained supressed due to overproduction and restriction on exports of vegetables. However, JKAL plans to continue to lay emphasis on products with higher margins like Vegetables.

Moderate financial risk profile
The total operating income of the company has increased by 6.04% to Rs. 202.89 crore in FY18 due to growth in its field crop and cotton seeds business. PBILDT margin of the company decreased slightly to 13.51% in FY18 as against 14.01% in FY17 attributable to decrease in share of vegetable segment which has higher margins. The interest coverage of the company stood stable at 3.39x in FY18 (PY: 3.32x). The overall gearing of the company increased from 0.54x as on 31st Mar 2017 to 0.61x as on 31st Mar 2018 on account of higher working capital borrowings partially offset by scheduled repayment of term loan coupled with enhancement in the net-worth due to accretion of profits to the reserves.
In H1FY19, the company reported total income from operations of Rs 124.22 crore (vs. Rs 131.49 crore in H1FY18). In H1FY19, PAT decreased to Rs 7.66 crore as against Rs 12.64 crore in H1FY18 attributable to lower sales of vegetable segment which has higher margins.

Key Rating Weaknesses
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 (61.48% in FY18). 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 the company's increased focus on vegetables for which the sales usually happen during Q3 and Q4, the operating losses have reduced during these quarters.

Elongated operating cycle
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 (around 61% of total operating for the FY18 booked in Q1 FY18), which results in high inventory holding in the March quarter. 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. The company has pending dues owing to sales to various state government departments (Rs. 19.44 crore with Rajasthan government). This is reflected in the increase in collection period to 178 days in FY18 from 165 days in FY17 (FY16: 161 days). As on 30th Sep 2018, the company has receivables of Rs 112.39 crore.

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 and the buy-back price for foundation seeds are 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 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](#)

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 and Florence Investec Ltd.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	191.33	202.89
PBILDT	26.80	27.41
PAT	12.06	11.96
Overall gearing (times)	0.54	0.61
Interest coverage (times)	3.32	3.39

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

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-Cash Credit	-	-	-	65.30	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A2
Term Loan-Long Term	-	-	Dec 2023	15.00	CARE A-; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	65.30	CARE A-; Stable	1)CARE A-; Stable (04-Oct-18)	1)CARE A-; Stable (13-Dec-17)	1)CARE BBB+; Stable (13-Jan-17)	1)CARE BBB+ (22-Jan-16)
2.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A2	1)CARE A2 (04-Oct-18)	1)CARE A2 (13-Dec-17)	1)CARE A3+ (13-Jan-17)	1)CARE A3+ (22-Jan-16)
3.	Term Loan-Long Term	LT	15.00	CARE A-; Stable	1)CARE A-; Stable (04-Oct-18)	1)CARE A-; Stable (13-Dec-17)	1)CARE BBB+; Stable (13-Jan-17)	1)CARE BBB+ (22-Jan-16)

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