

JK Agri Genetics Limited

December 13, 2017

Ratings

Facilities	Amount (Rs. Crore)	Ratings ¹	Remarks
Long term Bank Facilities	77.30	CARE A-; Stable (Single A Minus; Outlook: Stable)	Revised from CARE BBB+; Stable (Triple B Plus; Outlook: Stable)
Short term Bank Facilities	22.00	CARE A2 (A Two)	Revised from CARE A3+ (A Three Plus)
Total	99.30 (Rs. Ninety Nine crore and Thirty lakh 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 significant improvement in its capital structure backed by the improved operational performance of the company. The ratings continue to factor in the experienced promoter group, established brand name with extensive distribution network and strong in-house R&D (research and development) division along with technical collaboration with leading institutes. The ratings also factor in the diversified product mix of JKAL with a continuing focus of the company on high profit yielding vegetable seed segment.

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, 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 ten directors and is 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 7 breeding research centres and 35 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, Chaudhary Charan Singh Agricultural University,

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

Indian Agricultural Research Institute, International Crops Research Institute for the Semi-Arid Tropics, International Rice Research Institute, Seed Vision, etc, for research and development. During the year the company has launched a number of products like Tomato Hybrid JK Ratan, Paddy Hybrid JKRH 401, Surkesha, and notable cotton hybrid Pass Pass and few more hybrids in other crops of higher yield characteristics and suitable for changing farmer needs. JKAL has spent around 6.77% of its total income on research & development during FY17 (PY: 7.01%).

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 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.

Focus on high yielding segments of diversified product portfolio

JKAL deals in wide range of products involving cotton, field crops like Paddy, Maize, Jawar, Bajra and Vegetable. In past 2 years, the company has increased focus on products like vegetables owing to relatively higher realization from other products. The seed industry is highly seasonal with peak season (for sales) being Q1 of the financial year accounting for 55%-65% of the total annual sales (57.25% of total operating for the FY17 booked in Q1 FY17). JKAL is focussed on increasing the share of the vegetable segment in the overall sales bucket as they offer better margins compared to other field crops & cotton. Share of vegetable segment in total sales have increased from 25% in FY15 to 38% in FY17.

The design of above portfolio besides offering diversity also offers strong value proposition from cyclicity and risk mitigation perspective too. The company's portfolio is suitable for both the Kharif and Rabi seasons. The vegetables segment witnesses 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 cyclicity of the industry.

Significant improvement in overall gearing and satisfactory debt coverage indicators

The overall gearing of the company significantly improved from 1.03x as on March 31, 2016 to 0.54x in March 31, 2017 on account of lower working capital borrowings, partial repayment of term loan coupled with increase in the net-worth due to accretion of profits into the reserves. Reduction in total debt of the company in FY17 has resulted in the improvement of total debt to GCA which improved from 4.45x during as on March 31, 2016 to 2.11x during March 31, 2017. The other debt coverage indicator of the company, the interest coverage also improved from 2.18x in FY16 to 3.56x in FY17.

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 (57.25% in FY17). 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.

Long 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 58% of total operating for the FY17 booked in Q1 FY17), 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 also has pending dues of Rs. 32.28 crore owing to sales to

various state government departments (Rs. 19.44 crore with Rajasthan government). This is reflected in the continuous increase in the collection period from 127 days in FY15 to 161 days in FY16 and further to 173 days in FY17.

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/CARE A1+', JK Tyre & Industries Ltd (JKTL) rated 'CARE A+/CARE A1+' and Bengal & Assam Company Ltd (BCL) rated 'CARE A', JK Paper Ltd and Florence Investec Ltd.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	190.20	193.53
PBILDT	24.16	27.61
PAT	8.02	12.09
Overall gearing (times)	1.03	0.54
Interest coverage (times)	2.18	3.56

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	-	-	-	70.30	CARE A-; Stable
Non-fund-based - ST-BG/LC	-	-	-	2.00	CARE A2
Term Loan-Long Term	-	-	December, 2018	7.00	CARE A-; Stable
Fund-based - ST-Working Capital Demand loan	-	-	April, 2018	20.00	CARE A2

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	70.30	CARE A-; Stable	-	1)CARE BBB+; Stable (13-Jan-17)	1)CARE BBB+ (22-Jan-16)	1)CARE BBB+ (11-Dec-14)
2.	Non-fund-based - ST-BG/LC	ST	2.00	CARE A2	-	1)CARE A3+ (13-Jan-17)	1)CARE A3+ (22-Jan-16)	1)CARE A3+ (11-Dec-14)
3.	Term Loan-Long Term	LT	7.00	CARE A-; Stable	-	1)CARE BBB+; Stable (13-Jan-17)	1)CARE BBB+ (22-Jan-16)	1)CARE BBB+ (11-Dec-14)
4.	Fund-based - ST-Working Capital Demand loan	ST	20.00	CARE A2	-	-	-	-

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CIN - L67190MH1993PLC071691