

MANGALA SEEDS

MAY 09, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	8.00	CARE B+; ISSUER NOT COOPERATING* (Single B Plus; ISSUER NOT COOPERATING*)	Issuer not cooperating.
Total	8.00 (Rupees Eight crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Mangala Seeds to monitor the rating(s) vide e-mail communications dated February 21, 2017 and February 22, 2017 and February 23, 2017 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating.** In line with the extant SEBI guidelines CARE's rating on Mangala Seeds bank facilities will now be denoted as **CARE B+; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating in March 31, 2016 the following were the rating strengths and weaknesses :

Key Rating weakness

Relatively small scale of operations

MS has been in the seed industry for the last one decade and is a relatively small sized player with sales of Rs.20-30.0 crore in the last three years and a small networth base of Rs.2.28 crore as on March 31, 2015. While the scale of operation continues to remain small and volatile; during FY15, the total operating income increased marginally by about 5.09% driven by increased volume of out of state paddy sales.

Volatile trend in total operating income with low profitability

The total operating income of the firm has witnessed marginal growth in the last three years and witnessed y-o-y growth of about 6% in FY15 over FY14. The total operating income has been in the range of Rs.20-25 crore for the past 3 years however, it has increased from Rs.24.55 crore in FY14 to Rs.25.80 crore in FY15. With expansion of client base and commencement of sales outside Telangana, the sales volume and value has increased marginally during FY15. The PBILDT level also increased at a CAGR of about 4.26% during FY13-FY15. The PBILDT margin has been almost range bound at 2.62%- 2.91% during FY13- FY15. Low PBILDT margin alongwith high interest cost (on high working capital borrowings) has resulted in low PAT margin also.

Leveraged capital structure

The firm has a moderate solvency position and the capital structure has been leveraged as on last three account closing dates. The debt profile of the firm majorly comprises working capital borrowing and unsecured term loan. Given the increased scale of operation in the last 3 years, the working capital borrowings and utilizations have increased during the FY15 which coupled with relatively low profit levels has resulted in leveraged capital structure with overall gearing ratio at 3.11x as on March 31, 2015 (2.67x as on Mar.31, 2014). Significantly high working capital borrowings and comparatively low networth and thin accruals have resulted in weak financial position. Furthermore, the interest coverage ratio remained weak for the last 3 financial years FY13-FY15 and stood at 1.41x, 1.48x and 1.40x, respectively and total debt/GCA deteriorated to 33.27x in FY15 from 25.04x in FY14 on account of higher debt levels as on balance date.

Working capital intensive nature of operation with high operating cycle

MS operates in a working capital intensive industry with associated high working capital requirements. The operating cycle of the firm elongated in FY15 over the previous year on account of increase in inventory days. The finished goods inventory was high during the year as the firm maintains inventory in the form of finished goods (paddy) as on balance

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

* Issuer did not cooperate; Based on best available information

sheet date due to seasonal nature of business. The company has to maintain high inventory of seeds at the year-end for supply in the ensuing khariff season. Consequently, the finished goods inventory and inventory days increased in FY15. The firm sells in the domestic market as well outside the state as on cash basis and the average credit period is about a month. The creditor's days has also been on the lower side and further reduced in FY15 as the firm has been procuring majorly from the famers in advance. The average working capital utilization has been high at about 95%- 100% in the last 12 months ended February 2016.

Competition from the established domestic players and MNCs

In India, the hybrid seed market has considerable presence of MNC's lead by Monsanto, DuPont, Syngenta, Nunhems India, etc. who have strong distribution network and huge financial muscle to carryout continuous R&D. Further the market is dominated by large domestic companies (viz. Nuziveedu Seeds Private Ltd, Rasi Seeds, Kaveri Seeds, etc.) with large resources, strong distribution networks & R&D facilities. MS, though, has a good distribution network and a strong product base, being a small sized player, faces intense competition from the relatively large sized and established players. The industry has significant entry barriers in view of high cost associated with production, distribution, R&D, dealer discounts, etc.

Key rating strengths

Experienced Promoters

The partners; Mr. Madishetty Ashok (aged 40 years) and Mr. Gourishetty Nagaraju (aged 32 years) have been associated with the paddy seeds industry since the last three decades. Mr. M. Ashok is a managing partner of the firm and he is actively engaged in managing the day to day affairs of the firm. The profit-loss sharing ratio between the aforementioned two partners is 75:25.

Established track record of seed business

MS has about two decades of presence in the seed industry in Warangal, Telangana. The firm is engaged in processing and trading of paddy seeds. MS purchases the breeder seeds (initial level or raw seeds) of paddy from the state authorities and Agriculture Universities. These seeds are sold to farmers for up-gradation to foundation seeds. Foundation seeds are then repurchased back from farmers for further germination and for producing final seeds as per the specifications of State Certification Agency (for agriculture seed). Post certification, these seeds are sold commercially in packed form.

Strong marketing network within the Warangal

MS has about three decades of presence in the Indian Seeds industry. MS sells its products thorough well established dealer network across India. MS sell through dealers as the dealers extend security deposit which ensures safety of payment. MS day to day operations and marketing network managed by Mr. M Ashok. Both the partners are highly qualified with long industry experience.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)
[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)

About the Company

Mangala seeds (MS) were started as HUF on October 04, 1999 by Mr Madishetty Ashok. In March, 2007, Mr. Madishetty retired from HUF and incorporated Mangala Seeds as a partnership firm on April 01, 2007 with Mr Giurishetty Nagaraju as second partner. The firm is engaged in the Production, Procurement, Processing, Marketing and distribution of Paddy seeds in Warangal, Telangana. The processing unit of the firm is located at Madikonda, Warangal.

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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	8.00	CARE B+; ISSUER NOT COOPERATING*

**Issuer did not cooperate; Based on best available information*

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	8.00	CARE B+; ISSUER NOT COOPERATING*	-	1)CARE B+ (08-Jun-16)	-	-

**Issuer did not cooperate; Based on best available information*

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