December 23, 2022

# Acsen Hyveg Private Limited: Rating reaffirmed

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Term loans** | 12.00 | 12.00 | [ICRA]A (Stable); reaffirmed |
| **Cash credit** | 10.00 | 10.00 | [ICRA]A (Stable); reaffirmed |
| **Total** | **22.00** | **22.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation considers the healthy operational profile of Acsen Hyveg Private Limited (AHPL), characterised by its established presence in India's hybrid vegetable seed market and an extensive distributor network. The company is one of the leading payers in the hybrid vegetable seed segment and is present across India. Further, its strong research and development (R&D) capabilities, reflected in its presence in various hybrid vegetable seeds, along with the diversification into field crops support the revenue growth prospects. The rating also factors in the growing scale of operations and strong profitability metrics with return on capital employed (RoCE) being more than 30.0% over the last two years. The rating is further supported by the comfortable capital structure with limited reliance on external funding and strong debt coverage metrics.

The rating is, however, constrained by the intensely competitive vegetable seeds segment and a research-intensive industry with high investments required in R&D, which might adversely impact the company's profitability and cash accruals. The rating also factors in AHPL's moderate scale of operations, despite the recent improvement and high revenue concentration on the hybrid vegetable seeds segment which accounts for roughly 77% of the company's top line. Further, the rating factors in AHPL's susceptibility to the uncertainty in agro-climatic conditions, which can adversely impact its operations of developing commercialised seeds and affect the demand for hybrid seeds as well.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that AHPL will continue to benefit from the extensive experience of its promoters and its established research and development capabilities in the hybrid vegetable seed segment.

## Key rating drivers and their description

### Credit strengths

**Established market presence in India's hybrid vegetable seed market –** AHPL has established itself as one of the prominent players in the hybrid vegetable seed market in India through its strong research and development capabilities, supported by an extensive distributor network of over 1,600 distributors and a pan-India presence. AHPL also has more than 15 marketing offices in all the regions of India, catering to farmers of all geographies.

**Strong in-house R&D capabilities –** AHPL has established strong in-house R&D capabilities and a dedicated team to ensure the success of its seed development programmes. AHPL develops its own germplasms for many of its products and has established tie-ups with renowned institutes and universities around the world to obtain quality germplasms to develop other products. This has resulted in its strong market position in the Indian hybrid seed market. AHPL has witnessed a healthy scale-up of operations, supported by acceptance and demand for its products from farmers.

**Healthy financial profile –** AHPL's financial profile is characterised by its growing scale of operations with the operating income increasing to Rs. 276.4 crore in FY2022 from Rs. 240.3 crore in FY2021 and strong profitability metrics with RoCE of more than

30.0% over the last two years. The operating income of the company has increased by 10.6% YoY in 7M FY2023. The financial profile is also supported by its comfortable capital structure with TOL/TNW of 0.5 times in FY2022 and strong debt coverage metrics.

## Credit challenges

**Sustained R&D requirement for maintaining growth and market share –** Given the intense competition in the hybrid seed industry, sustained research and development is necessary to develop seeds of premium quality in terms of pest resistance, quality and quantity of yield. The process of hybrid seed development also involves a long gestation period, usually around four to six years. This requires huge investment in R&D facilities, and demand estimation for the products being developed becomes more crucial. These factors increase the volatility of the company's profitability and cash accruals.

**Moderate scale of operation and high revenue concentration on hybrid vegetable seed segment –** AHPL's scale of operations remains moderate, despite healthy growth over the years with an operating income of Rs. 276.4 crore for FY2022. AHPL also derives a major portion of its revenue from the hybrid vegetable seed segment which contributes around 77% to the total revenue. However, AHPL's diverse product portfolio within the segment with 21 different vegetable seed products and its foray into field crops mitigate this risk to an extent.

**Business susceptible to uncertain agro-climatic conditions –** The seed business is seasonal in nature and depends on rainfall and other climatic conditions. This exposes AHPL's revenue and profitability to crop and monsoon failure. However, AHPL's pan-India presence and commercial seed development programme in different regions mitigate the risk of monsoon failure in specific geographical regions of India to some extent.

## Liquidity position: Strong

AHPL's liquidity position remains strong, characterised by healthy operational cash flows, large cash balances and adequate buffer available in its working capital facilities. The utilisation of the cash credit facility availed by the company (Rs. 10.0 crore) remains low for the period November 2021 to October 2022. The unencumbered cash balances and liquid investments stood at Rs. 17.97 crore as on November 22, 2022.

## Rating sensitivities

**Positive factors –** ICRA may upgrade the rating if the company is able to scale up its revenues and profitability on a sustained basis.

**Negative factors –** Pressure on AHPL's ratings may arise if the company's cash accruals deteriorate significantly on account of a reduction in scale or profitability. A specific credit metric that ICRA may monitor for a possible downgrade is the core RoCE declining below 18.0% on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the company. |

## About the company

AHPL was incorporated in 2009 and is an established player in the vegetable seed segment in India. The company was formed after the demerger of the vegetable seed division from Rasi Seeds Private Limited. AHPL has been involved in research, breeding, developing and sale of hybrid vegetable seeds and has established itself as a prominent player in the hybrid vegetable seeds market with a diverse product portfolio. AHPL has R&D facilities in Bengaluru, Coimbatore, Sohna and Kullu for product development and quality assurance. AHPL, since 2018, has expanded into the field crop segment (maize, pearl millet, mustard and paddy) with a focus on further diversifying its product portfolio.

### Key financial indicators

| AHPL Standalone (audited) | FY2020 | FY2021 | FY2022 |
|---|---|---|---|
| **Operating income (Rs. crore)** | 204.1 | 240.3 | 276.4 |
| **PAT (Rs. crore)** | 20.1 | 32.3 | 39.6 |
| **OPBDIT/OI (%)** | 14.5% | 20.7% | 19.8% |
| **PAT/OI (%)** | 9.9% | 13.4% | 14.3% |
| **Total outside liabilities/Tangible net worth (times)** | 0.46 | 0.58 | 0.49 |
| **Total debt/OPBDIT (times)** | 0.37 | 0.15 | 0.09 |
| **Interest coverage (times)** | 24.90 | 48.20 | 74.62 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

## Status of non-cooperation with previous CRA: Not Applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on Oct 31, 2022 (Rs. crore) | Date & rating | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Dec 23, 2022 | Sep 30, 2021 | Jun 01, 2020 | - |
| 1 | **Term loans** | Long-Term | 12.00 | 3.00 | **[ICRA]A (Stable)** | **[ICRA]A (Stable)** | **[ICRA]A- (Stable)** | - |
| 2 | **Cash credit** | Long-Term | 10.00 | - | **[ICRA]A (Stable)** | **[ICRA]A (Stable)** | **[ICRA]A- (Stable)** | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Term loan** | Simple |
| **Cash credit** | Simple |

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | **Term loan** | FY2019 | - | FY2024 | 12.00 | [ICRA]A (Stable) |
| NA | **Cash credit** | - | - | - | 10.00 | [ICRA]A (Stable) |

*Source: Company*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure II: List of entities considered for consolidated analysis

Not Applicable

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## About ICRA Limited:

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