

March 03, 2023

## Seedworks International Private Limited: Long-term rating upgraded to [ICRA]A (Stable); short-term rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based/Cash credit	40.00	40.00	[ICRA]A(Stable); rating upgraded from [ICRA]A-(Stable);
Short term – Fund-based limits	30.00	30.00	[ICRA]A2+ reaffirmed
<b>Total</b>	<b>70.00</b>	<b>70.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

For arriving at the ratings, ICRA has considered the consolidated financials of Seedworks International Pvt Ltd (SIPL) and its wholly-owned subsidiary – Straits Biotech Pte Ltd – and its step-down subsidiary Seedworks Philippines Inc, Philippines.

The rating upgrade factors in the increase in the revenues to Rs. 467.5 crore in FY2022 from Rs. 396.4 crore in FY2021 and the improvement in the operating profitability to 11.5% in FY2022 from 8.3% in FY2021 at a consolidated level. The company's financial risk profile remains strong, marked by a comfortable capital structure and healthy coverage indicators. Going forward, ICRA expects a steady revenue growth and further improvement in profit margins, aided by increasing volume contribution from vegetables and millets.

The ratings also consider the strong investor profile with private equity (PE) firm, True North Fund V LLP, holding a majority stake (77.8% as on March 31, 2022). The ratings draw comfort from the extensive experience of the management in the seeds industry and the company's established relationships with farmers and distributors. ICRA also takes note of the company's established in-house R&D capabilities and a dedicated team to ensure the success of its hybrid seed development programmes along with its well-diversified geographical presence with a pan-India network and export destinations like the Philippines and Nepal.

The ratings are constrained by SIPL's moderate scale of operations and high revenue concentration risk with cotton and rice seeds forming a majority of the revenues, although the combined share has declined to ~80-84% in the last two fiscals from 90%+ in FY2019. The ratings also consider the regulatory risks inherent in the sector as cotton seed prices are regulated by the Government. Further, SIPL's revenues and profitability are susceptible to the uncertainty in agroclimatic conditions, as seen in the past, which can impact both SIPL's cost of production as well as demand for hybrid seeds. Moreover, the demand estimation remains crucial owing to the long production cycle wherein the demand should be estimated in advance of the sale. ICRA also notes the long gestation period in the development of hybrid seeds and high working capital intensity which is expected to remain high in the near to medium term.

The Stable outlook on the [ICRA]A rating reflects ICRA's opinion that SIPL's credit profile will continue to be stable, aided by the extensive experience of the management and strong in-house R&D which will support the business growth. Moreover, the debt coverage indicators and liquidity position are expected to remain comfortable.

## Key rating drivers and their description

### Credit strengths

**Strong investor profile and experience of the management in seeds industry** – SIPL has a strong investor profile with PE firm, True North Fund V LLP, holding a majority stake. Further, the management has a long track record and an extensive experience in the seeds industry and maintains healthy relationships with farmers and distributors, resulting in repeat business every year.

**Healthy financial risk profile** – SIPL has a strong financial risk profile, characterised by a conservative capital structure (debt/net worth of 0.7x as on March 31, 2022) and healthy debt coverage metrics (interest cover and DSCR of 10.8x and 6.9x in FY2022, respectively). The company's operating margin has improved to 11.5% in FY2022 from 8.3% in FY2021 due to economies of scale. The expected revenue growth along with an improvement in the profitability and no major capex plans in the near to medium term are expected to keep the company's incremental reliance on debt under check and its capitalisation and coverage metrics are likely to remain healthy.

**Strong in-house R&D facility** – SIPL has established in-house R&D capabilities and a dedicated team to ensure the success of its hybrid seed development programmes. SIPL develops its own breeder seeds in its R&D facility by procuring germplasm from various institutes. The R&D unit in Hyderabad and Karnataka is approved by the Department of Science and Industrial Research (DSIR), Government of India. SIPL's strong R&D team has supported the launch of several products in rice and cotton in the past. It has also started R&D of vegetables seeds in the last few years. The company has also onboarded the best-in-class research team in millets and mustard.

**Diversified geographical presence** – SIPL is geographically diversified with a pan-India presence, mitigating the region-specific agro-climatic risks to an extent. The top five states accounted for 44-55% of its revenues in the last three years. The company also exports rice seeds; exports accounted for ~13-17% of the total sales.

### Credit challenges

**Moderate scale of operations with susceptibility to seasonality and agro-climatic condition, high working capital intensity** – SIPL's scale of operations remained moderate even with an 18% growth in FY2022 on a consolidated basis to Rs. 467.5 crore from Rs. 396.4 crore in FY2021. The company's operating performance remains susceptible to external factors such as erratic rainfall, soil and climatic conditions and crop diseases; any adverse movement in these factors will impact the revenue and profitability. SIPL's inventory requirements remain high with NWC/OI of 34.3% in FY2022 owing to the high receivables and inventory, led by the seasonality associated with its operations. This is because the company focuses on kharif crops, for which it is required to build inventory from January. In the current fiscal, the debtor days are expected to increase due to delays in the realisation of the Philippines-based debtors which may further increase the working capital intensity in FY2023. The working capital intensity is expected to moderate from FY2024 following the recoveries from export sales.

**High crop concentration; likely to improve with expected increase in revenues from vegetables, millets and mustard** – While SIPL's revenue concentration on cotton and rice seeds reduced from 90%+ in the past, it continues to be high as the company derived 80-84% of its total revenues from these two crops in the last two years. High concentration exposes the company to potential demand shocks in the rice and cotton industries or any plant-specific disease outbreak, leading to crop failures. However, the product diversification is expected to slightly improve as the sales of millet, mustard and vegetable seeds are ramped up.

**Regulatory risks with Government's regulation on cotton seed prices and stiff competition in the industry: long gestation period makes demand estimation crucial** – The prices of cotton seeds are regulated by the Government, as per the Cotton Seed Control Order, 2015, limiting the pricing flexibility and margins of seed companies to an extent. In FY2022, it has kept the maximum retail price (MRP) at the same level, i.e. Rs. 810 per 450 gm packet. Moreover, SIPL faces intense competition from other large private players in the hybrid seed industry. Usually, the gestation period is seven-eight years. Although the presence of the advanced biotech lab operated by the company's subsidiary in Singapore reduces the gestation period, it's still long at

four-six years. Moreover, the company needs to estimate the seed demand a year in advance of the sale, hence demand estimation becomes crucial.

### Liquidity position: Adequate

The company's liquidity position is adequate, with free cash and bank balance (including free FDs) of Rs. 9.42 crore as of March 2022 and no major capex plans or repayment obligations. The average utilisation of the cash credit limits stood at 77% for the 12-month period ended October 2022. Overall, ICRA expects SIPL to be able to meet its near-term commitments through internal accruals as well as available bank lines and yet be left with adequate cash surpluses.

### Rating sensitivities

**Positive factors** – ICRA may upgrade the ratings if the company demonstrates an improvement in the scale and profitability while diversifying its product portfolio, strengthening its financial risk profile on a sustained basis.

**Negative factors** – Pressure on SIPL's ratings could arise if the revenues and margins decline significantly on a sustained basis, or if any stretch in the working capital cycle impacts its liquidity position. A specific credit metric that could lead to a downgrade includes interest coverage ratio of below five times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Seedworks International Pvt Ltd (SIPL) and its wholly-owned subsidiary – Straits Biotech Pte Ltd – and its step-down subsidiary Seedworks Philippines Inc, Philippines

### About the company

SIPL was incorporated in November 2008 as a 100% subsidiary of erstwhile Seedworks Singapore Pte Limited and was acquired by True North Fund V LLP, a Mumbai-based PE fund, in 2016, which currently holds majority stake in the company. SIPL is involved in the research, breeding, developing and sale of hybrid seeds with its headquarters in Hyderabad, Telangana, and R&D facilities across Hyderabad, Bengaluru, Lucknow, Hissar, Aurangabad and Abohar. SIPL sells under the brand name of US Agriseeds and is one of the leading players in hybrid rice seeds with increasing presence in cotton seeds. It started research on vegetable seeds in January 2018. Further, the company has also started millet and mustard seed sales from FY2020, which was acquired from Krishna Seeds Private Limited and are sold under the brand name Krishna Beej. The company is certified as a Great Place To Work (GPTW) and is ranked 29th among India's great mid-sizes workplaces 2022.

### Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	396.4	467.5
PAT	11.8	17.5
OPBDIT/OI	8.3%	11.5%
PAT/OI	3.0%	3.7%
Total outside liabilities/Tangible net worth (times)	2.5	1.8
Total debt/OPBDIT (times)	2.6	1.6
Interest coverage (times)	6.3	10.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Standalone	FY2021	FY2022
Operating income	353.0	420.2
PAT	5.6	12.5
OPBDIT/OI	7.7%	9.7%
PAT/OI	1.6%	3.0%
Total outside liabilities/Tangible net worth (times)	2.6	1.9
Total debt/OPBDIT (times)	3.1	2.2
Interest coverage (times)	5.2	8.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

**Rating history for past three years**

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 24, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Mar 3, 2023	Jan 7, 2022	Feb 05, 2021	Jan 14, 2020
1 Fund based/Cash credit	Long term	40.0	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2 Fund based Limits	Short term	30.0	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

**Complexity level of the rated instruments**

Instrument	Complexity Indicator
Long term fund-based/Cash credit	Simple
Short term – Fund-based limits	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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long term fund-based/Cash credit	NA	NA	NA	40.0	[ICRA]A (Stable)
NA	Short term – Fund-based limits	NA	NA	NA	30.0	[ICRA]A2+

Source: Company

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

Company Name	Consolidation Approach
Straits Biotech Pte Limited	Full consolidation
SeedWorks Philippines Inc.	Full consolidation

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