

July 28, 2023

## Haryana Seeds Development Corporation Limited: 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	75.00	75.00	[ICRA]BB+(Stable); reaffirmed
<b>Total</b>	<b>75.00</b>	<b>75.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating reaffirmation takes into account the established track record of Haryana Seeds Development Corporation Limited (HSDCL) in Haryana's certified seeds industry. The rating also notes its strategic importance as a nodal agency for supplying cost-effective seeds in Haryana as well as its highly integrated operations with the cost of production, price determination and subsidy disbursements for certified and traded seeds being regulated by the agricultural department of the Government of Haryana (GoH). The rating also positively factors in the strong distribution network of 79 sales counters across Haryana, supported by six seed processing plants and warehousing centres.

The rating, however, remains constrained by the low realisation on seeds due to the state-regulated subsidised prices. HSDCL, being a nodal agency for supplying cost-effective seeds, acts as the GoH's price regulator in the certified seeds industry. To cover the cost of production and processing, the entity receives subsidy from the GoH and is highly dependent on the timely release of the subsidies to maintain its liquidity profile.

The company's revenues are also dependent on the agro-climatic conditions as it affects the output of crops and thus the availability of seeds. ICRA also considers HSDCL's concentrated product portfolio, wherein wheat seeds account for more than 80% of the turnover.

The Stable outlook on the [ICRA]BB+ rating reflects ICRA's opinion that HSDCL will continue to maintain its position as one of the market leader in the certified seeds industry in Haryana and will receive timely support from the GoH in the form of capital grants and subsidies.

### Key rating drivers and their description

#### Credit strengths

**One of the leading producers and distributors of certified wheat seeds in Haryana** - Established in 1974, the company has a long track record as one of the market leaders in Haryana's certified seeds industry. It has a ~17% market share in the supply of certified wheat seeds in Haryana.

**Nodal agency for supplying cost-effective seeds in Haryana** - The company acts as the GoH's price regulator for certified seeds because it provides seeds to farmers at highly subsidised rates. As a result, the company is of strategic importance to the GoH and receives support from the state in the form of capital grants and subsidies.

**Strong sales network** - HSDCL has a strong sales network. It has 79 sales counters up to the tehsil level across Haryana, supported by six seed processing plants and warehousing centres.

## Credit challenges

**Exposure to agro-climatic risk** - HSDCL's scale of operations is contingent upon the monsoon and other agro-climatic conditions necessary to cultivate various crops. Any substantial fluctuation such as heavy rainfall/heat waves/drought in the key production centres or sales markets has a considerable impact on the quality, availability and pricing of seeds. HSDCL is also exposed to inventory risks as it has to maintain a sizeable stock of various seed varieties to meet the demand on time. Moreover, given the seasonal nature of its business, HSDCL's working capital requirements vary during the year and are in line with the sowing pattern of crops (majorly wheat). The peak working capital requirement is between April and September.

**Revenue decline in last two financial years and lower margins on account of state regulated prices** – HSDCL's operating income declined by ~16% to Rs. 94.61 crore in FY2022 from Rs. 113.18 crore in FY2021 (unaudited) and is expected to remain subdued in FY2023 as well on account of unfavourable agro-climatic conditions like the heat wave in March 2022 and excessive rainfall during March-April 2023 which impacted wheat production Haryana. As the company sells its wheat seeds at highly subsidised rates, its profitability is generally insulated by the share of traded seeds (carrying margins ranging from 3% to 10%) and from the sale of other seeds. However, the volume of traded seeds also declined to 30,107.8 quintals in FY2023 from 37,849.3 quintals in FY2022. The operating margin declined to 3.7% in FY2022(provisional) from 3.9% in FY2021(unaudited).

**High dependence on timely release of government subsidies** - The company relies on timely support in the form of subsidies from the GoH to support its liquidity profile. The working capital utilisation level increases in cases of delays in receiving subsidies, leading to higher interest costs.

## Liquidity position: Adequate

The liquidity position is adequate with no long-term repayment obligations and low utilisation of working capital facilities. The average working capital utilisation was Rs. 6.32 crore (8.43%) in the last 12 months ended March 2023.

## Rating sensitivities

**Positive factors** – The rating could be upgraded if there is a sustained track record of healthy growth in revenues and improvement in margins, leading to an improvement in the key credit metrics and liquidity position. ICRA could upgrade the rating if the credit profile of the Govt. of Haryana improves.

**Negative factors** – Pressure on the rating could emerge if there is a sustained decrease in the scale and margins due to adverse climatic conditions, limiting the availability of seeds, or if there are delays in receiving subsidy support from the Govt. of Haryana, resulting in a deterioration of the liquidity. Any deterioration in the credit profile of the Govt. of Haryana can also weigh on the rating.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Approach – Implicit Support from Parent or Group</a>
Parent/Group Support	Parent entity: Government of Haryana The assigned rating factors in HSDCL's strategic importance to the GoH and the support received from the government in the form of capital grants and subsidies
Consolidation/Standalone	Standalone

## About the company

Haryana Seeds Development Corporation Limited (HSDCL) was established in 1974 to produce, process and distribute certified seeds. The company is a Haryana state government undertaking (a 55% equity shareholding), from which it derives financial support in the form of subsidies. The balance stake is owned by National Seeds Corporation Limited (22%) and associated farmers (23%). Although the corporation acts as a seed merchant to buy and sell seeds of all kinds in Haryana, over 90% of the processed seeds are wheat. The corporation has established six seed processing plants at Umri, Hisar, Sirsa, Yamuna Nagar, Tohana and Pataudi (all in Haryana), and a marketing office at Bhiwani. The combined processing capacity of HSDC's six plants is 4.90 lakh quintals, while the storage capacity is 4.49 lakh quintals. The marketing of certified seeds, fertilisers, gunny bags, etc., is undertaken by the company's own network of 79 sales counters spread across Haryana.

## Key financial indicators

Standalone	FY 2021	FY 2022
	Unaudited	Provisional
Operating Income (Rs. crore)	113.2	94.6
PAT (Rs. crore)	3.0	1.2
OPBDIT/OI (%)	3.9%	3.7%
PAT/OI (%)	2.6%	1.2%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.4
Total Debt/OPBDIT (times)	2.7	0.0
Interest Coverage (times)	2.0	1.9

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated	Amount outstanding	Rating	FY2023	FY2022	FY2021
					Jul 28, 2023	Apr 14, 2022	-	Dec 29, 2020
1	Fund based - Cash credit	Long term	75.0	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)

Amount in Rs. crore

## Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund based - 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, is available on ICRA's website: [Click Here](#)

**Annexure-1: Instrument details**

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based – Cash credit	NA	NA	NA	75.00	[ICRA]BB+ (Stable)

Source: Company

**Annexure-2: List of entities considered for consolidated analysis: Not Applicable**

## ANALYST CONTACTS

**Sabyasachi Majumdar**

+91 124 4545304

[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Siddhartha Kaushik**

+91 124 4545323

[siddhartha.kaushik@icraindia.com](mailto:siddhartha.kaushik@icraindia.com)

**Aditya Agrawal**

+91 124 4545817

[aditya.agrawal@icraindia.com](mailto:aditya.agrawal@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.