

September 30, 2021

Acsen Hyveg Private Limited: Rating upgraded

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------|-----------------------------------|----------------------------------|--|
| Term Loans | 12.0 | 12.0 | [ICRA]A (Stable); upgraded from [ICRA]A-(Stable) |
| Cash Credit | 10.0 | 10.0 | [ICRA]A (Stable); upgraded from [ICRA]A-(Stable) |
| Total | 22.0 | 22.0 | |

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in the increase in the scale of operations and profitability of Acsen Hyveg Private Limited (AHPL). This is reflected from the year-on-year (YoY) growth of 17.7% achieved by AHPL in FY2021 and 28.5% in 5M FY2022. Moreover, the operating profit margins of the company improved to 20.7% in FY2021 from 14.5% in FY2020, supported by the cost control measures by limiting the general, selling and promotional expenditure. This has resulted in healthy return indicators for the company with return on capital employed (RoCE) remaining above 30.0% in FY2021. Further, the rating factors in the comfortable capital structure of the company with limited reliance of external funding and strong debt coverage metrics. The rating continues to take into account AHPL's healthy operational profile, characterised by its established presence in India's hybrid vegetable seed market and an extensive distributors' network. The company has established itself as one of the leading payers in the hybrid vegetable seed segments and has presence across the geographies in India. Further, its strong research and development (R&D) capabilities reflected by its presence in various hybrid vegetable seeds along with diversification into field crops support the revenue growth prospects.

The rating is, however, constrained by the intensely competitive vegetable seeds segment and research-intensive nature of the 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 the operations, despite the recent improvement and high revenue concentration on the hybrid vegetable seeds segment which accounts for roughly 85% of the company's top-line. Further, the rating factors in AHPL's susceptibility to 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 its hybrid vegetable seed segment.

Key rating drivers and their description

Credit strengths

Established market presence in India's hybrid vegetable seeds market – AHPL has established itself as one of the prominent players in the hybrid vegetable seeds market of India through its strong research and development capabilities, supported by the extensive distributor network of around 1,500 distributors with presence all over India. AHPL also has more than 15 marketing offices established 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 for development of other products. The same resulted in its strong market position in the Indian hybrid seeds market. Supported by healthy acceptance and demand for its products from farmers, AHPL has witnessed healthy scaling up of operations.

Healthy financial profile characterised by a healthy scale-up of operations and comfortable capital structure – AHPL’s financial profile is characterised by its healthy scaling up of operations with the operating income increasing to Rs. 240.3 crore in FY2021 from Rs. 204.1 crore in FY2020 and strong profitability metrics with RoCE of more than 30.0% in FY2021. The operating income of the company has increased by 28.5% on a YoY basis in 5M FY2022. The financial profile is also supported by its comfortable capital structure with TOL/TNW of 0.6 times in FY2021 and strong debt coverage metrics.

Credit challenges

Sustained R&D requirement for maintaining growth and market share – Given the intense competition in the highly research-based hybrid seed industry, sustained research and development is necessary to develop seeds, which are 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. These factors lead to huge investment requirement 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. 240 crore for FY2021, as per provisional financials. AHPL also derives a major portion of its revenue from its hybrid vegetable seeds segment with the segment contributing around 85% to the total revenue. However, AHPL’s diverse product portfolio within the segment with 17 different vegetable seed products and its recent foray into the field crops segment mitigates this risk to an extent.

Business susceptible to uncertain agro-climatic conditions – Seeds business is seasonal in nature and is dependent 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 seeds 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** as characterised by the healthy operational cash flows and adequate buffer available in its working capital facilities. The average month-end utilisation of cash credit facility availed by the company stood at 6% of the sanctioned limits (Rs. 10.0 crore) for the period September 2020 to August 2021. The liquidity position is also supported by the funds available in the form of cash and liquid mutual funds.

Rating sensitivities

Positive factors – ICRA may upgrade the rating of AHPL if the company is able to scale up its revenues and profitability on a sustainable 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. Specific credit metric that ICRA may monitor for a possible downgrade of rating is 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 2016 and is an established player in the vegetable seeds segment in India. The company was formed after 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 Bangalore, 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 (audited)

| AHPL Standalone | FY2019 | FY2020 | FY2021 (Provisional) |
|--|--------|--------|----------------------|
| Operating Income (Rs. crore) | 175.1 | 204.1 | 240.3 |
| PAT (Rs. crore) | 15.4 | 20.1 | 32.3 |
| OPBDIT/OI (%) | 12.6% | 14.5% | 20.7% |
| PAT/OI (%) | 8.8% | 9.9% | 13.4% |
| Total Outside Liabilities/Tangible Net Worth (times) | 0.7 | 0.5 | 0.6 |
| Total Debt/OPBDIT (times) | 1.0 | 0.4 | 0.2 |
| Interest Coverage (times) | 63.9 | 24.9 | 48.2 |

*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 | Type | Amount Rated (Rs. crore) | Current Rating (FY2022) | | Chronology of Rating History for the past 3 years | | |
|---------------|-----------|--------------------------|---|--------------------|---|-------------------------|-------------------------|
| | | | Amount Outstanding as of March 31, 2021 (Rs. crore) | Date & Rating in | Date & Rating in FY2021 | Date & Rating in FY2020 | Date & Rating in FY2019 |
| 1 Term Loan | Long-term | 12.0 | 7.6 | September 30, 2021 | June 1, 2020 | - | - |
| 2 Cash Credit | Long-term | 10.0 | - | [ICRA]A (Stable) | [ICRA]A-(Stable) | - | - |

Complexity level of the rated instrument

| 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|----------------------------|
| - | Term Loan | FY2019 | - | FY2024 | 12.0 | [ICRA]A (Stable) |
| - | Cash Credit | - | - | - | 10.0 | [ICRA]A (Stable) |

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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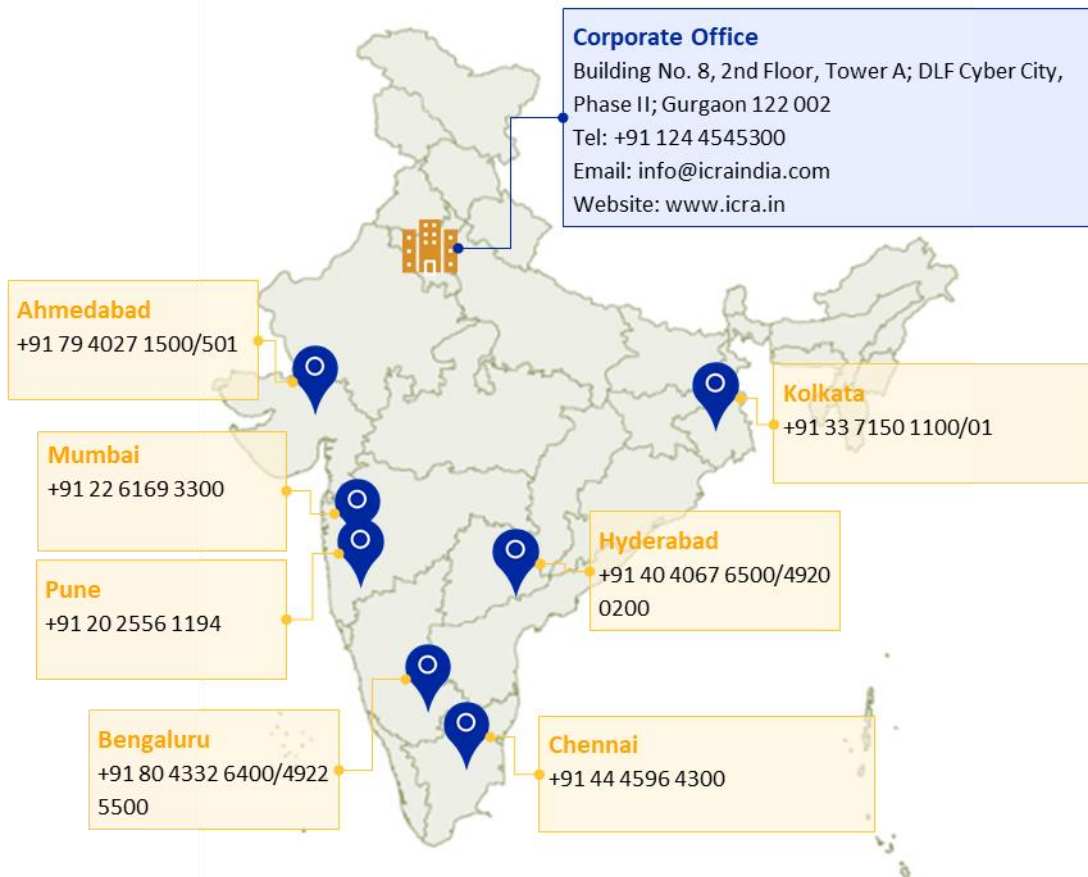
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Branches



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