August 31, 2023

Rasi Seeds Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based - Term loan	10.67	10.67	[ICRA]AA- (Stable); reaffirmed
Long term – Unallocated	66.07	66.07	[ICRA]AA- (Stable); reaffirmed
Short term – Fund based	100.00	100.00	[ICRA]A1+; reaffirmed
Short term - Unallocated	25.00	25.00	[ICRA]A1+; reaffirmed
Total	**201.74**	**201.74**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the ratings for Rasi Seeds Private Limited (RSPL) factors in its strong financial profile, marked by the growth in its revenues and profitability during the period from SY2018 to SY2022[1], healthy return metrics, its strong debt coverage metrics and superior liquidity position. The gross revenues and profit after tax witnessed a compound annual growth rate (CAGR) of 8.1% and 13.1%, respectively, during this period, supported by the company's dominant market position in the domestic cotton seed segment. While the profitability has moderated over the last two years - SY2021 and SY2022 - owing to increased procurement cost and higher sales returns in the preceding year, it is expected to recover marginally in SY2023 with improved volumes and rise in cotton seed prices. Despite the dip in profitability, the return metrics continue to be healthy. Moreover, the strong cash flow from operations over the years resulted in a superior liquidity position for the company with unencumbered cash and liquid investments of Rs. 821 crore[2] as on March 31, 2023 and a negative net debt position.

The ratings also consider RSPL's strong in-house research and development (R&D) capabilities and an extensive distribution network with presence across all the crop growing regions in India, enabling it to emerge as one of the dominant players in the Indian hybrid cotton seed market. Further, the company has invested in foreign entities, engaged in similar lines of business, to expand its geographical footprint globally. RSPL is open to further investments to expand its geographic presence and ICRA will evaluate the investments on a case-to-case basis.

The ratings, however, remain constrained by the susceptibility of the company's earnings to agro-climatic and regulatory risks stemming from the Government of India's (GoI) control on cotton seed prices, which limits the pricing power of seed players. However, scrappage of trait fee in SY2020 and increase in prices to Rs. 853 per packet in SY2023 supported the profitability to an extent. Further, RSPL has a relatively high product concentration with ~83% of the revenues derived from cotton seeds in FY2023. Nevertheless, ICRA takes note of the strong revenue growth in the non-cotton seed segment with a four-year CAGR of 16.4% for the period ended SY2022, its increasing proportion in RSPL's overall product pie and the company's greater focus on research & development (R&D) in this segment.

The Stable outlook on RSPL's ratings reflects its strong operational profile characterised by factors like a dominant market share in the cotton seed segment, strong procurement and distribution network as well as a diversified geographical presence. ICRA expects the company's debt metrics to remain strong and it is likely to maintain healthy cash balances and liquid investments, going forward.

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[1] SY represents the period from October to September

[2] Gross debt of Rs. 64 crore, unencumbered cash of Rs. 821 crore, resulting in net debt of (-) Rs. 757 crore as on March 31, 2023

Key rating drivers and their description

Credit strengths

Established player in India's hybrid cotton seed market – RSPL has a track record of over three decades. It is one of the dominant players in the Indian hybrid cotton seed market with a strong operational profile and ability to cater/launch seeds in diverse agro-climatic conditions and according to farmer preferences. Through its strong in-house R&D capabilities, the company has been able to periodically introduce variants in the market. It has also ventured into institutional sales through tie-ups with a few other players in the industry. These have helped the company expand its market share over the years.

Pan-India presence with wide distribution network and farmer connect – RSPL has a wide distribution network with presence across all the crop growing regions in India. The company has a strong sales and marketing network, comprising 31 carrying and forwarding (C&F) agents and ~2,500 distributors spread across 17 states. It is also backward-integrated with ~28,000 contract farmers across the four southern states and cotton seed farming area spread across ~15,000 acres, ensuring smooth procurement. Further, the company has invested in foreign entities, engaged in similar lines of business, to expand its geographical footprint globally.

Strong financial profile – RSPL's financial profile remains strong with healthy profitability, depicted by a return on capital employed (RoCE) of over 20%, low debt levels with negative net debt/OPBDITA, strong debt coverage metrics and superior liquidity position. While the profitability has moderated over the last two years, that is SY2021 and SY2022, owing to a increased procurement cost and higher sales returns in the preceding year, it is expected to recover marginally in SY2023 with improved volumes and rise in cotton seed price. The company is net debt negative with unencumbered cash and liquid investments of Rs. 821 crore as on March 31, 2023.

Credit challenges

Regulatory risks arising from Government regulation on cotton seed prices – As per the Cotton Seed Control Order, 2015, the GoI determines the maximum selling price and trait fee for Bt-II cotton seeds, thereby limiting the pricing flexibility and margins of seed companies to an extent. While the earnings of seed players will remain susceptible to the policy measures of the GoI, the scrappage of trait fee in SY2020 and an increase in the maximum sale price (MSP) per packet to Rs. 853 in SY2023 from Rs. 810 in SY2022 is likely to support the profitability margins of seed players.

High product concentration – RSPL continues to derive most of its revenues from the cotton seed business. About 83.1% of the revenues in SY2022 were derived from cotton seeds, exposing the company to potential demand shocks in the cotton industry or any cotton plant-specific disease outbreak, leading to crop failure. However, its dominant position in the cotton seed market, coupled with the company's ability to periodically introduce hybrid variants, mitigates the risk to a large extent. Also, RSPL's portfolio of non-cotton hybrid seeds, which includes several major crops like maize, paddy and wheat, has witnessed a healthy growth in sales in the last few years at a CAGR of 16.4% (SY2018–SY2022) and its proportion in RSPL's overall product pie has risen to 16.9% in SY2022 from 14.0% in SY2020, with increased focus and R&D on non-cotton seeds.

Business susceptible to agro-climatic conditions – Like other agro-commodities, the seed industry and RSPL's business is seasonal and dependent on monsoon. Also, with crops remaining vulnerable to diseases, pests and weeds, RSPL's earnings are susceptible to crop failure and disease outbreaks. However, the company's pan-India presence insulates it against the risks to a certain extent.

Liquidity position: Superior

RSPL's liquidity position is superior with a healthy buffer between the cash flow from operations and debt servicing, working capital and capex requirements. The company is expected to generate cash flows from operations of ~Rs. 250 crore in SY2023. In addition, the company had net unencumbered cash and liquid investments of over Rs. 700 crore as on July 31, 2023. Against these sources of cash, RSPL has debt repayment obligations of ~Rs. 40 crore in SY2023 and Rs. 36 crore in SY2024 and a total capex of ~Rs. 60 crore during SY2023–SY2024, thereby leaving healthy surpluses.

Rating sensitivities

Positive factors – ICRA could upgrade RSPL's long-term rating if it is able to diversify its products and show a sustained improvement in earnings while maintaining strong debt coverage metrics and liquidity position.

Negative factors – Pressure on the ratings will arise if the earnings deteriorate significantly due to adverse market conditions, leading to a moderation in liquidity and debt coverage metrics. Any adverse regulatory impact on the operations or earnings shall also be a key negative trigger. A specific credit metric for downgrade would be total debt/OPBITDA of more than 1.0 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has considered the consolidated financials of RSPL. The details of the consolidated entities are listed in Annexure-II

About the company

RSPL is the market leader in the hybrid cotton seed market in India. While cotton seeds accounted for 83.1% of the revenues in SY2022, maize (6.9%), paddy (4.6%) and other seeds (5.4%) made up the rest of the revenue pie. RSPL has eight plants to process seeds grown by more than 28,000 contract farmers across the four southern states and has a wide distribution network of ~2,500 distributors spread across the country. RSPL has also invested in foreign entities, engaged in similar lines of business, with a total investment value of Rs. 292.7 crore. Apart from the seed division, the company has windmills with a total capacity of 4.25 MW.

RSPL was founded in 1986 by Mr. M. Ramasami, who hails from an agricultural family and graduated from Tamil Nadu Agricultural University. While the promoter's son, Mr. R. Rajendran, currently manages RSPL, the promoter's son-in-law, Mr. S. Senthilnathan, manages the Acsen Group of Companies, which has interests in vegetable seeds, textile and renewable energy. These entities operate independently with no major inter-corporate dealings, although the board of directors of all these companies comprise family members of Mr. M. Ramaswami.

Key financial indicators (audited)

RSPL Consolidated	FY2021	FY2022	FY2023^
Operating income (Rs. crore)	1,539.3	1,500.3	1,252.5*
PAT (Rs. crore)	380.9	330.5	265.6
OPBDIT/OI (%)	31.8%	28.5%	25.7%
PAT/OI (%)	24.7%	22.0%	21.2%
Total outside liabilities/Tangible net worth (times)	1.22	0.89	0.70
Total debt/OPBDIT (times)	0.28	0.23	0.20
Interest coverage (times)	73.25	42.48	30.93

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

^FY2023 figures are reported for the standalone entity as consolidated numbers were not available at the time of the exercise; it is to be noted that it is comparable with the earlier years since the other subsidiaries are not actively operational

**Revenue accounting changed in FY2023 with operating revenue restated as net of rebates and discounts (FY2022: Rs. 1,296.3 crore)*

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 (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 31, 2023	Jun 14, 2022	Apr 09, 2021	May 22, 2020
1	**Fund based – TL**	Long-Term	10.67	6.67	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**
2	**Unallocated**	Long-Term	66.07	-	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]AA- (Stable)**	**[ICRA]A+ (Positive)**
3	**Fund based – CC**	Long-Term	-	-	-	-	-	**[ICRA]A+ (Positive)**
4	**Non fund based**	Long-Term	-	-	-	-	-	**[ICRA]A+ (Positive)**
5	**Fund based**	Short-Term	100.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
6	**Unallocated**	Short-Term	25.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
7	**Interchangeable**	Short-Term	-	-	-	-	-	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based - Term loan	Simple
Long term – Unallocated	NA
Short term – Fund based	Simple
Short term - Unallocated	NA

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	**Long term – Fund based – Term loan**	Oct 2019	-	Oct 2024	10.67	[ICRA]AA- (Stable)
NA	**Long term – Unallocated**	-	-	-	66.07	[ICRA]AA- (Stable)
NA	**Short term – Fund based**	-	-	-	100.00	[ICRA]A1+
NA	**Short term - Unallocated**	-	-	-	25.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Rasi Seeds Private Limited	100.0%	Full Consolidation
Rasi Agri Bio-genetics Private Limited	93.3%	Full Consolidation
Sira Seeds Private Limited	99.9%	Full Consolidation

Source: Company

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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.

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