

Kalinga Breeding Farms Private Limited

December 20, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	76.03 (Enhanced from 60.02)	CARE BB+; Stable	Upgraded from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in rating assigned to the bank facilities of Kalinga Breeding Farms Private Limited (KBFPL) factors in increase in total operating income in FY24 (audited) and 7MFY25 (Unaudited) [FY refers to the period April 01 to March 31], increased profitability in FY24. The rating continues to be tempered by leveraged capital structure albeit improvement, working capital intensive nature of operation leading to elongated operating cycle, moderation in profit margins in FY24, cyclic nature of poultry industry, highly fragmented industry with intense competition from large number of players along with inherent risk of flu outbreak and other diseases. The rating weaknesses, however, are offset by experienced and resourceful promoters, infusion of funds by way of unsecured loans by promoters, adequate liquidity position and stable outlook with improving poultry demand in India.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increase in scale of operations beyond Rs.200 crore while maintaining its profitability margins beyond 15% on a consistent basis.
- Overall gearing below 1.50x on a sustained basis.

Negative factors

- Decline in profitability margin as marked by PBILDT margin below 10%
- Any un-envisaged debt funded capex/additional debt availed by the firm resulting in deterioration of solvency ratios

Analytical approach: Standalone

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that the entity will continue to benefit from industry experience of promoters and management.

Detailed description of key rating drivers:

Key weaknesses

Moderation in profitability in FY24: Despite increase in TOI, PBILDT and PAT margin deteriorated to 13.87% and 3.83% in FY24, respectively (PY: 17.76% and 5.11% respectively) mainly due to increase in the cost of procuring raw material which is feed stock. The company scaled up its hatching process in FY24 which resulted in incremental requirement of feed stock. This had resulted in increase in cost of raw materials. Despite reduction, margins continue remain at satisfactory levels.

Leveraged capital structure albeit improvement: The total debt of KBFPL comprises of term loan, vehicle loan, unsecured loans from promoters and working capital loan. The company has higher debt levels of Rs.74.20 crore as on March 31, 2024, compared to moderate scale of operations. The slight increase in debt is due to increase in working capital utilisation and unsecured loans infused by the promoters to support the increased revenue in FY24. The debt-to-equity ratio stood at 1.72x as of March 31, 2024 (PYE: 2.26x), overall gearing ratio of 3.10x as on March 31, 2024 (PYE: 3.56x). Debt coverage indicators i.e., total debt to GCA was high though improved to 9.71x in FY24 (PYE: 11.69x). Interest coverage ratio is satisfactory at 2.29x in FY24.

Working capital intensive operation: Operating cycle improved to 192 days in FY24 from 225 days in FY3. Due to the nature of business operations where in the company is required to keep high inventory level of parent bird and raw material stock to feed the birds in different growing stages and to mitigate fluctuation in raw material prices, hence the inventory levels are generally high. To support the increase in scale of operations, the average working capital utilisation stood high at 95.33%.

Highly fragmented industry with intense competition from large number of players: KBFPL faces stiff competition in the poultry business from large number of established and unorganized players in the market. Competition gets strong with the presence of unorganized players leading to pricing pressures. However, improved demand scenario of poultry products in the country enables well for the company.

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Vulnerability of the industry's performance to outbreaks of flu and other diseases: Intermittent outbreaks of bird flu have affected exports since 2006. Such disease outbreaks will affect exports of Indian companies. These avian flu outbreaks lead to a drastic fall in demand followed by crash in poultry prices. Such scenario could pressurize the company's revenue flows as well as profitability. Any ban on the export of poultry products can further strain the prospects of poultry companies. In CY2016, six different avian influenza outbreaks were reported in the states of Tripura, Karnataka, Kerala, Haryana, and Punjab. However, according to industry sources the outbreaks did not have a major impact on trade since they were confined to a limited area. At the time of recent outbreak of the coronavirus in the month of January 2020, the poultry industry was impacted in the major chicken consuming states. However, with the government's assurance at that time that chicken consumption is safe and had no links to the virus outbreak comes as a relief for the industry.

Cyclic nature of poultry industry: KBFPL operates in a cyclical industry on account of outbreaks of bird flu and other diseases which can affect demand and cause prolonged impact on margins and turnover. The company margins are also susceptible to volatility in feed prices in the poultry business.

Key strengths

Increase in scale of operations in FY24 and 7MFY25: The total operating income (TOI) increased to Rs. 96.98 crores in FY24 from Rs 62.42 crores in FY23 registering a growth of about 55% led by increase in income from hatching process which contributed around ~32% to the total revenue in FY24 compared to marginal share in FY23. KBFPL also started integration of birds where it grows chicks for other players and later sells it. The cost incurred in the process is borne by the owner themselves. In absolute term the operating profit of the company has increased to Rs 13.45 crores in FY24 as compared to Rs. 11.08 crores in FY23 registering a growth of 21%.

Satisfactory track record, experienced and resourceful promoters: Kalinga Breeding Farms Private Limited (KBRPL) was incorporated in the year 2011 and promoted by Mr. K. Surender Reddy (Managing Director), Ms. K. Rama Devi (Director), along with other family members. Due to long term presence in the market, the promoter has good relations with suppliers and customers. The promoters are willing to infuse funds as and when needed to support the operations of business and in FY24, total unsecured loans from promoters stands at Rs. 16.45 crore.

Improving Poultry demand in India: The India poultry market size reached a value of USD 30.46 billion in 2023. The industry is further expected to grow at a CAGR of 8.1% in the forecast period of 2024-2032 to reach a value of approximately USD 61.41 billion by 2032. The India poultry market is being driven by the rising disposable incomes and changing consumer food habits. The shift from the traditional Indian diet, which heavily depends on pulses, to food products such as meat, eggs, and dairy products to meet the protein requirements of the human body is significantly aiding the industry growth. The growing awareness regarding health and wellness is further driving the demand for a protein-rich diet. Other factors like rising disposable incomes, improving living standards and lifestyle patterns, rapid urbanisation, and the growth of the distribution channels are propelling the industry further. The strong growth of the food services market, including food chains, restaurants, and fast-food joints, is leading to the increased consumption of broiler meat and eggs. In India, both traditional Indian non-vegetarian recipes and fast-food recipes involve the use of broiler meats, as well as eggs, making them a significant part of the cooking. Further, the thriving bakery food s market is driving the demand for eggs, which is an important ingredient in bakery foods. The regional bakery foods market is exhibiting strong growth rates and is expected to create a positive impact on the consumption of eggs in the country. Over the forecast period, the growing popularity of online food delivery channels such as Zomato, Uber Eats, and others is expected to aid the food services market, which will aid the growth of the poultry market in India.

Liquidity: Adequate

Liquidity is adequate marked by gross cash accruals of Rs. 7.64 crores and above unity current ratio. The company has a repayment obligation of Rs. 9.30 crores for FY25. The promoters have been infusing funds y-o-y to support the funding requirements. Further, KBFPL has a free cash and bank balance of Rs.0.18 crore as of March 31, 2024. The average utilization level of the working capital facilities is at about 95.33% for past 12 months ending November 2024. The company's fund based working capital limits were enhanced to Rs.56 crore which would enable them to have some cushion in terms of higher working capital needs.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Meat Products including Poultry

Kalinga Breeding Farms Private Limited (KBFPL) was incorporated in the year 2011 and promoted by Mr. K. Surender Reddy along with other family members. The company is engaged in farming of egg, laying poultry birds (chickens) and trading of eggs, cull birds and their manure. The poultry farming unit is located at Chinnakistapur Village, Siddipet, Telangana. The company sells its products like eggs and cull birds to retailers through own sales personnel and through some dealers located in West Bengal, Maharashtra and Telangana. The company purchase chicks (small chickens) from Venkateshwara Hatcheries Private Limited and raw materials for feeding of birds like rice broken, maize, sunflower oil cake from local farmers in Telangana.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	7MFY25 (UA)
Total operating income	62.42	96.98	88.36
PBILDT	11.08	13.45	NA
PAT	3.19	3.71	NA
Overall gearing (times)	3.56	3.10	NA
Interest coverage (times)	2.20	2.29	NA

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: CRISIL & ICRA continues to categorize rating assigned to the bank facilities of KBFPL under non-cooperation category vide PR dated March 08, 2024 and November 24, 2023, respectively on account of its inability to carry out a rating exercise in the absence of the requisite information from the company.

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	56.00	CARE BB+; Stable
Fund-based - LT-Term Loan	-	-	-	September-2029	20.03	CARE BB+; Stable

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	20.03	CARE BB+; Stable	-	1)CARE BB; Stable (01-Mar-24) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (19-Jan-24)	1)CARE BB; Stable (06-Dec-22)	1)CARE BB; Stable (01-Oct-21)
2	Fund-based - LT-Cash Credit	LT	56.00	CARE BB+; Stable	-	1)CARE BB; Stable (01-Mar-24) 2)CARE BB; Stable; ISSUER NOT COOPERATING* (19-Jan-24)	1)CARE BB; Stable (06-Dec-22)	1)CARE BB; Stable (01-Oct-21)

*Issuer did not cooperate; based on best available information.

LT: Long term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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