

K.R.R.Poultry Farms

February 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	7.00	CARE B+; Stable (Single B Plus; Outlook: Stable)	Reaffirmed
Total Bank Facilities	7.00 (Rs. Seven Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of K.R.R.Poultry Farms (KRRPF) continues to be tempered by small scale of operations, Leveraged capital structure and weak debt coverage indicators, working capital intensive nature of operations, constitution of the entity as HUF with inherent risk of withdrawal of capital and highly fragmented and competitive business segment due to presence of numerous players.

The rating also factors stable profitability margins, degrowth in total operating income in FY20 and satisfactory profitability margins

However, the rating derives comfort from long track record of operations with experienced partners.

Rating sensitivities

Positive Factors

- Sustainable increase in TOI while PBILDT margins and PAT margin remaining steady at or above 7% and 2% respectively on sustained basis, going forward.
- Improvement in debt coverage indicators marked by TD/GCA by generating better cash accruals and less reliance on external bank borrowings.
- Improvement in capital structure by infusion of capital funds and maintaining overall gearing falling below 2.00 times.

Negative Factors

- Decline in scale of operation with TOI declining below Rs 20 crore.
- Deterioration in capital structure marked by overall gearing ratio deteriorating beyond 6.00x in any of the future years.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

Despite long track record of operations, the scale of operations of the firm continues to remain small at Rs.25.93 crores in FY20 and declined from Rs.27.53 crore in FY19. along with a low net worth base of Rs.2.42 crores as on March 31, 2020. The total operating income (TOI) of the firm has been declined by 5.81% to Rs. 25.93 crore in FY20 viz a viz Rs. 27.53 Crore in FY19 owing to market price fluctuations in sale prices of eggs and cull birds during said period.

Leveraged capital structure and weak debt coverage indicators

The debt profile of the firm includes predominantly of working capital facility and NBFC loans. The capital structure of the firm marked by overall gearing deteriorated and continued to be leveraged at 4.26x as on March 31, 2019 as compared to 3.94x as on March 31, 2019 due to increase in cc utilisation as on balance sheet dates and the fresh loans availed by the firm. The long term debt equity also deteriorated to 3.34x as on March 31, 2020 as against 0.54x as on March 31, 2019 owing to above reasons. The firm also availed COVID loans to the tune of Rs. 1.80 crore during FY20.

The debt coverage indicators of the firm also deteriorated and continues to be weak during FY20 marked by TD/GCA at 18.60x in FY20 as against 16.44x in FY19 due to increased debt levels coupled with stable cash accruals generated during the year. Furthermore, the ability of the firm for servicing the interests towards the debts stood moderate, marked by its interest coverage ratio at 1.50x in FY20 as against 1.74x in FY19 which has deteriorated mildly due to the increase in interest costs at the back of increase in debt levels.

Working capital intensive nature of operations

The average operating cycle of the firm stood elongated at 146 days in FY20 (134 days for FY19) due to high inventory level of 130 days in FY20 (119 days for FY19) as the firm maintained high level of inventory (raw material maize) to mitigate price fluctuations as of March 31, 2020. Furthermore, the credit policy of the firm with its customers and suppliers is agreed upon for up to 30 days. Apart from that the firm needs to be maintained cleanly to reduce insanitation and outbreak of diseases.

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

The firm also spends on vaccinating the chicks on a regular basis. The labours are hired on contract and paid on a daily wage basis. All this leads to increased working capital utilization. As per the banker interaction, the average utilization of cash credit limits remained at 90% for the past 12 months period ended January 2021

Highly fragmented industry with intense competition from large number of players

KPF 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 entity.

Constitution of the entity as HUF with inherent risk of withdrawal of capital

Constitution as a HUF has the inherent risk of possibility of withdrawal of the partner's capital at the time of personal contingency which can adversely affect its capital structure.

Furthermore, partnership firms have restricted access to external borrowings as credit worthiness of the partners would be key factors affecting credit decision for the lenders.

Key Rating Strengths

Long track record and vast experience of the promoter in the poultry industry

KPF was established in the year 2009 and promoted by Mr. T Ramesh. Mr. T Ramesh is a qualified graduate in B.A, MBA and has more than one decade of experience in the poultry business. Due to long term presence in the market, Mr. T Ramesh has good relations with suppliers and customers.

Satisfactory profitability margins

The profitability margins marked by PBILDT and PAT margins remained satisfactory and improved marginally by 50 bps and 24 bps respectively in FY20. The PBILDT margin stood at 5.80% in FY20 as against 5.30% in FY19 owing to decline overall cost of poultry feeds during said period. While, the PAT margin stood thin albeit improved and stood at 1.69% in FY20 as against 1.45% in FY19 due to increase in PBILDT in absolute terms, which has absorbed interest costs despite increased.

Liquidity analysis – stretched

The liquidity position of the firm continues to be stretched. The company operates in a working capital intensive industry marked by higher inventory period. Current ratio remained comfortable at 2.88x as on March 31, 2020. Firm had a cash and bank balance of Rs. 0.07 crore as on March 31, 2020., The average utilization of working capital limits remained high at 90% for the past twelve months period ended January 2021. The firm has not availed any moratorium amid COVID-19 RBI guidelines.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

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

About the firm

Tamilnadu based, K.R.R Poultry Farms (KPF) was established in the year 2009 and promoted by Mr. T Ramesh. K.R.R Poultry Farms is a Hindi Undivided Family (HUF) and Mr. T Ramesh is the Kartha of KPF. The farm is located in, Namakkal, (Tamil Nadu) in an area of 50 acres. The entity is engaged in farming of egg, laying poultry birds (chickens) along with trading of eggs and cull birds. The firm sells its products like eggs and cull birds in TamilNadu and Kerala to retailers through own sales personnel and through some dealers.

Brief Financials (Rs. crore)	31-03-2019	31-03-2020
	A	A
Total operating income	27.53	25.93
PBILDT	1.46	1.50
PAT	0.40	0.44
Overall gearing (times)	3.94	4.26
Interest coverage (times)	1.74	1.50

Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE B+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE B+; Stable	-	1)CARE B+; Stable (06-Feb-20)	1)CARE B+; Stable (15-Mar-19)	1)CARE B+; Stable; ISSUER NOT COOPERATING* (22-Mar-18) 2)CARE B+; Stable (16-May-17)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA**Annexure 4: Complexity level of various instruments rated for this company**

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

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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