Shanthi Feeds Private Limited

November 25, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	110.00	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Short-term bank facilities	117.00	CARE A2+ (A Two Plus)	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Total bank facilities	**227.00 (₹ Two hundred twenty-seven crore only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Shanthi Feeds Private Limited (SFPL) continue to derive strength from the established track record of SFPL, its integrated nature of poultry operations, diversified product mix and noticeable presence in the broiler market in Tamil Nadu. The ratings also take into account the comfortable capital structure and adequate liquidity positions.
The ratings are, however, constrained by SFPL's limited control on the prices of end products, the vulnerability of profits to raw material price movements and the highly fragmented and competitive nature of the poultry industry. The ratings also factor in the susceptibility of the industry to the outbreaks of bird flu as well as other diseases.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Consistent growth in the scale of operations above ₹4,000 crore with diversification into multiple product segments.
- Sustainable improvement in the operating margins upwards of 10%.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in the profit margins below 6% on a consistent basis.
- Any large debt-funded capex leading to deterioration in the capital structure with increase in gearing above 0.30x.

Detailed description of the key rating drivers

Key rating strengths

Established track record of the promoters and the company: K Ramasamy, founder of the company, was an employee of Animal Husbandry Department, Tamil Nadu, and started a poultry farm in 1988 as a means of self-employment. His son, R Lakshmanan, was also involved in the business since then and has an experience of over three decades. The poultry farm was converted into a private limited company and has an established track record of operations for over three decades. The company has an established presence in the animal feed industry in Kerala, and broiler industry in Tamil Nadu. The day-to-day operations of the company are managed by L. Saravanan (s/o R Lakshmanan).

Vertically-integrated poultry business: The operations of SFPL include rearing of parent chicks, hatching of eggs, broiler breeding and processing of chicken. The company has achieved backward integration through the manufacture of poultry feed. SFPL sources day-old parent chicks of 'Vencobb' breed from Venco Research and Breeding Farm Limited (VBFL- rated 'CARE A+; Stable/ CARE A1+'), and the eggs laid by these birds are used in the company's hatcheries. Owing to the contract farming model employed by SFPL, the company is able to achieve sizeable growth in its broiler sales. Poultry feed is produced in-house for both captive and market consumption. Approximately 50% of the total feed production is used for in-house consumption, while other 50% is sold outside in the market. SFPL also has windmills and solar captive power of cumulative capacity of 15.8 MW, which meets around 90% of its power requirement.

Diversified product and revenue profile: SFPL has a diversified product profile consisting of broiler birds, processed chicken meat, parent birds, hatching eggs, cattle & poultry feed, poultry medicine & equipment, feed supplements, gunny bags and raw materials (trading of maize and soya). The company is also into the manufacturing of dressed meat and ties up with major retailers and restaurants in Tamil Nadu and Kerala. The company also has major institutional clientele in its dressed meat segment.

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

SFPL enters into a contract period of three to six months with its institutional clients for the supply of dressed chicken at a fixed price. The price is accordingly revised once the contract is renewed. The broilers from the company's contract farms are consumed internally for processing of dressed meat.

Comfortable capital structure and debt protection metrics: The capital structure of the company remained comfortable with overall gearing at 0.17x as on March 31, 2022 as against 0.17x as on March 31, 2021. The company had prepaid the entire term loans o/s as on March 31, 2022, during the current financial year. The debt coverage indicators stood comfortable with total debt to gross cash accruals (TD/GCA) at 0.68x as on March 31, 2022 (PY: 0.54x) and interest coverage at 37.80x in FY22 (refers to the period April 1 to March 31) (PY: 38.80).

Key rating weaknesses

Limited control on product (chicken) prices and vulnerability of profits to raw material price movements: With raw material costs accounting for more than 75% of the overall cost and limited control over the selling prices of broiler birds, SFPL's profitability is vulnerable to the volatility in raw material (key ingredients - maize and soyabean) prices. Maize is the primary source of energy and constitutes about 45% of the feed, whereas soyabean is the primary source of protein and forms about 35% of the feed. As the poultry industry is virtually a buyers' market, any sharp increase in the raw material prices might not be fully passed on to the broiler consumers as the broiler prices are controlled by its own demand-supply dynamics. There had been substantial increase in the prices of feed ingredients, ie, soya and maize, over the past two years due to limited domestic availability. The PBILDT margin of the company dropped from 12.08% in FY21 to 8.49% in FY22 and further to 5.25% in H1FY23, primarily on account of higher raw material costs.

Highly fragmented and competitive nature of the industry with low entry barriers: Poultry meat is predominantly sold in the form of live birds, as consumers prefer to buy live poultry and get it cleaned before consuming them. Most of such sales can happen at small unorganised shops with its own slaughterhouse. Low entry barriers in these highly competitive segments lead to oversupply situation, which in turn affects the profitability. With changing demographic profiles, there is an increase in the demand for processed chicken meat due to the penetration of retail outlets and changing food habits. Such a change in the market scenario will aid SFPL, which is planning to increase its output of processed chicken meat against live birds. The improvement in the sale of the higher-margin processed meat could also help the company absorb the volatility in feed prices and other costs. The ability of the company to expand this and other higher margin business, would be key to the company's prospects.

Vulnerability of the industry's performance to outbreaks of flu and other diseases: Irregular outbreaks like coronavirus, bird flu and avian flu are historically known to affect the poultry industry. These outbreaks lead to a drastic fall in demand followed by crash in the poultry prices. This leads to heavy losses to the poultry farmers, as government agencies destroy chicks in substantially high numbers to prevent disease outbreak. The vulnerability of operations to such flu outbreaks always exist, which might impact the fortunes of the companies related to the poultry sector. There have been several instances of disease outbreaks in poultry products in India, impacting the poultry market and thereby reducing the demand suddenly leading to inventory losses. SFPL has thus developed its farms at different locations to reduce the chances of spread of any contagious disease.

Liquidity: Strong

The company has a strong liquidity position marked by unencumbered cash and bank balance of ₹78.15 crore (PY: ₹57.60 crore) as on March 31, 2022. The company had prepaid the entire term loans during current year and there are no repayment obligations going forward. The working capital cycle remains comfortable at 56 days in FY22 (PY: 55 days). SFPL maintains average inventory of 50-70 days. The working capital of the company is largely funded out of the internal accruals and has lower dependence on bank limits. The average working capital utilisation of fund-based limits stood comfortable at 42% for the past 12 months ended September 2022, while non-fund-based utilisation stood at 30% for the same period. The current ratio stood comfortable at 3.07x as on March 31, 2022.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

[Policy on default recognition]
[Financial Ratios – Non financial Sector]
[Policy on Withdrawal of Ratings]

About the company

Shanthi Feeds Private Limited (SFPL, erstwhile Shanthi Poultry Farm Private Limited) is a Coimbatore-based integrated poultry company, primarily engaged in the business of production of poultry feed and sale of broiler birds produced through contract farming. The company owns more than 4.5 lakh parent chicks and birds along with installed feed capacity of 440 MT/day of mash feed, and 1,600 MT/day of pellet feed, as on March 31, 2022. The company also has 17 windmills of capacity aggregating to 15.8 MW, which caters to around 90% of the total power requirement.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (P)
Total operating income	2,052.0	2,832.6	1,593.9
PBILDT	244.8	240.5	83.7
PAT	152.6	159.50	NA
Overall gearing (times)	0.17	0.17	NA
Interest coverage (times)	38.38	37.80	47.02

A: Audited; P: Provisional; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	110.00	CARE A; Stable
Fund-based - LT-Term loan		-	-	2024	0.00	Withdrawn
Fund-based - ST-Standby Line of Credit		-	-	-	20.00	CARE A2+
Non-fund-based - ST-Bank guarantee		-	-	-	6.00	CARE A2+
Non-fund-based - ST-Credit exposure limit		-	-	-	1.00	CARE A2+
Non-fund-based - ST-Letter of credit		-	-	-	90.00	CARE A2+

Annexure-2: Rating history of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term loan	LT	-	-	-	1)CARE A; Stable (05-Oct-21)	1)CARE A-; Stable (04-Nov-20)	1)CARE A-; Stable (29-Nov-19)
2	Fund-based - LT-Cash credit	LT	110.00	CARE A; Stable	-	1)CARE A; Stable (05-Oct-21)	1)CARE A-; Stable (04-Nov-20)	1)CARE A-; Stable (29-Nov-19)
3	Non-fund-based - ST-Letter of credit	ST	90.00	CARE A2+	-	1)CARE A2+ (05-Oct-21)	1)CARE A2 (04-Nov-20)	1)CARE A2 (29-Nov-19)
4	Non-fund-based - ST-Bank guarantee	ST	6.00	CARE A2+	-	1)CARE A2+ (05-Oct-21)	1)CARE A2 (04-Nov-20)	1)CARE A2 (29-Nov-19)
5	Fund-based - ST-Bill discounting/ Bills purchasing	ST	-	-	-	-	-	1)Withdrawn (29-Nov-19)
6	Non-fund-based - ST-Credit exposure limit	ST	1.00	CARE A2+	-	1)CARE A2+ (05-Oct-21)	1)CARE A2 (04-Nov-20)	1)CARE A2 (29-Nov-19)
7	Fund-based - ST-Standby Line of Credit	ST	20.00	CARE A2+	-	1)CARE A2+ (05-Oct-21)	1)CARE A2 (04-Nov-20)	1)CARE A2 (29-Nov-19)

*Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities – Not applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Fund-based - ST-Standby Line of Credit	Simple
4	Non-fund-based - ST-Bank guarantee	Simple
5	Non-fund-based - ST-Credit exposure limit	Simple
6	Non-fund-based - ST-Letter of credit	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

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

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About us:
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