

## Guna Poultry Feeds

February 24, 2020

### Rating

| Facilities                | Amount<br>(Rs. Crore)                          | Ratings <sup>1</sup>   | Rating Action  |
|---------------------------|--|--|--|
| Long-term Bank Facilities | 10.00  | CARE B; Stable<br>ISSUER NOT COOPERATING*<br>(Single B; Stable<br>ISSUER NOT COOPERATING*) | Issuer not cooperating;<br>Revised from CARE B+;<br>Stable (Single B Plus;<br>Outlook : Stable) On the<br>basis of best available<br>information |
| <b>Total</b>              | <b>10.00</b><br><b>(Rupees Ten Crore only)</b> |  |  |

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Guna Poultry Feeds to monitor the rating vide e-mail communications dated December, 2019 to January, 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating. **In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating.** The rating on Guna Poultry Feeds's bank facilities will now be denoted as **CARE B ; Stable; ISSUER NOT COOPERATING\***

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

#### Detailed description of the key rating drivers

*At the time of last rating on December 21, 2018 the following were the rating strengths and weaknesses:*

#### Key Rating Weaknesses

##### ***Small scale of operations with low networth base***

The firm has a track record of sixteen years, however, the total operating income (TOI) of the firm remained low at Rs.27.85 crore in FY18 with a low net worth base of Rs.1.23 crore as on March 31, 2018 as compared to other peers in the industry.

##### ***Declining PBILDT margin and thin PAT margin during the review period***

The PBILDT margin of the firm was seen declining during the review period. The PBILDT margin of the firm has decreased from 3.16% in FY16 to 1.59% in FY18 due to increase in raw material expenses and other expenses (plant maintenance and employee cost) associated with increased production. The PAT margin of the firm has decreased from 0.16% in FY16 to 0.10% in FY17 due to decrease in PBILDT levels. However, it increased to 0.22% in FY18 due to decline in interest cost on the back of lower utilization of working capital limits.

##### ***Weak debt coverage indicators***

The debt coverage indicators of the firm remained weak during the review period. The total debt/GCA has improved from 128.27x in FY16 to 114.11x in FY18 due to increase in gross cash accruals (GCA) levels. However, the total debt/GCA stood at zero as on March 31, 2018 owing to closure of working capital limits.. The PBILDT interest coverage ratio improved marginally from 1.06x in FY16 to 1.21x in FY18 due to decline in interest cost on the back of lower utilization of working capital limits.

##### ***Working capital intensive nature of operations***

The operating cycle of the company improved from 81 days in FY16 to 19 days in FY18 due to decrease in inventory period and collection period. The firm maintains 1-2 months inventory in order to meet the demand of the market. The firm receives payment in respect of poultry feeds within 1-7 days from the date of invoice. The firm sells eggs to local traders on cash basis. The firm makes payment to its creditors within 1-60 days depending on the relationship with the supplier. The average utilization of CC facility was 90% for the last 4 months ended November 30, 2018.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

\*Issuer did not cooperate; Based on best available information

**Liquidity analysis**

The current ratio of the company stood at 0.95x as on March 31, 2018 mainly on account of high payables on the closing date of March 31, 2018. The cash balances stood at 0.05 crore as on March 31, 2018. The company did not have any current investments as on March 31, 2018. The unutilized working capital limits stood at 10% as on December 19, 2018.

**Highly fragmented industry with intense competition from large number of players**

The firm is engaged in manufacturing of poultry feeds which is highly fragmented industry due to presence of large number of organized and unorganized players in the industry resulting in huge competition.

**Constitution of the entity as proprietorship firm with inherent risk of withdrawal of capital**

The sole proprietor typically makes all the decisions and runs the entire business operation. If he becomes ill or disabled, there may be nobody else who can step in and keep the business going. Running a business single-handedly can also pose a risk due to heavy burden. Constitution as a proprietorship has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency which can adversely affect its capital structure.

**Key Rating Strengths****Long track record and experience of the proprietor for more than one decade in poultry feeds manufacturing segment**

Guna Poultry Feeds (GPF) was established in the year 2002 as proprietorship firm by Mrs.R.Gunavathi. She has around 16 years of experience in poultry feeds business. The business operations of the firm are actively managed by the proprietor who is also supported by Mr. Rajamanickam (Spouse of Mrs.R.Gunavathi). Mr. Rajamanickam has more than four decades of experience in poultry business. Due to long term presence in the market, the firm has good relationship with the customers and suppliers.

**Growth in total operating income during the review period**

The total operating income of the firm increased y-o-y at a CAGR of 43.47% from Rs.13.53 crore in FY16 to Rs.27.85 crore in FY18 on account of increase in demand for poultry feeds from the associate concern (RPF) and local poultry farms. With an increase in the number of birds reared by RPF, the feed requirement also increased. Hence the operating income of GPF was also seen increasing. Furthermore, the firm achieved a total operating income of Rs.21.29 crore in 8MFY19 (Prov.).

**Comfortable capital structure as on March 31, 2018**

The capital structure of the firm stood comfortable as on March 31, 2018. The overall gearing ratio has improved from 19.22x as on March 31, 2016 to 16.59x as on March 31, 2017 due to increase in networth on the back of accretion of profits. However, owing to closure of working capital limits in March 2018, the overall gearing ratio stood at zero as on March 31, 2018

**Stable outlook of Poultry feed industry**

The global poultry feed market was estimated at USD 3,161.14 million in 2017. The industry is expected to register a CAGR of over 3.91% over the forecast period. Demand for poultry feed in India has been increasing consistently over the last five years on account of rising population, growing demand for healthy poultry products such as broiler meat and surging demand for compound poultry feed poultry products in India is being witnessed on account of increasing poultry population, and this is further anticipated to drive growth in India poultry feed market in the coming years. Increasing per capita income, expansion of domestic and international quick service restaurants in India, along with growing demand for quality poultry products have significantly contributed to the rising demand for poultry feed in India.

**Analytical approach: Standalone****Applicable criteria:**

[Policy in respect of Non-cooperation by the issuer](#)

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

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

[Rating Methodology - Manufacturing Companies](#)

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

**About the Firm**

Guna Poultry Feeds (GPF) was established in the year 2002 as proprietorship firm by Mrs.R.Gunavathi. The firm is engaged in manufacturing of poultry feed with an installed capacity of 40 tons per day at Rajagoundanur, Namakkal, Tamil Nadu. The firm is also engaged in trading of eggs. The firm purchases major raw materials (Maize, Soya) from the local dealers in and around Namakkal. The firm sells the poultry feeds to its associate concern Rajamanickam Poultry Farm (RPF) (75% of total

poultry feed sales) and other local poultry farms (25% of total poultry feed sales). The firm purchases eggs from RPF and sells them to local traders.

| Brief Financials (Rs. crore) | FY17 (A) | FY18 (A) |
|------------------------------|----------|----------|
| Total operating income       | 24.36    | 27.85    |
| PBILDT                       | 0.42     | 0.44     |
| PAT                          | 0.02     | 0.06     |
| Overall gearing (times)      | 16.59    | 0.00     |
| Interest coverage (times)    | 1.08     | 1.21     |

#### A-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                | -                | -           | -             | 5.00                          | CARE B; Stable; ISSUER NOT COOPERATING*<br>Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information |
| Fund-based - LT-Proposed fund based limits | -                | -           | -             | 5.00                          | CARE B; Stable; ISSUER NOT COOPERATING*<br>Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information |

\*Issuer did not cooperate; Based on best available information

#### 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 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 |
| 1.      | Fund-based - LT-Cash Credit                | LT              | 5.00                           | CARE B; Stable; ISSUER NOT COOPERATING*<br>Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information | -   | 1) CARE B+; Stable (21-Jan-19)            | -   | -   |
| 2.      | Fund-based - LT-Proposed fund based limits | LT              | 5.00                           | CARE B; Stable; ISSUER NOT COOPERATING*<br>Issuer not cooperating; Revised from CARE B+; Stable on the basis of best available information | -   | 1) CARE B+; Stable (21-Jan-19)            | -   | -   |

\*Issuer did not cooperate; Based on best available information

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

### Contact us

#### Media Contact

Mradul Mishra

Contact no. +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

#### Analyst Contact

Group Head Name – Nivedita Ghayal

Group Head Contact no. - 040- 40102030

Group Head Email ID - [nivedita.ghayal@careratings.com](mailto:nivedita.ghayal@careratings.com)

#### Business Development Contact

Name: Pradeep Kumar

Contact no. : 044 – 2850 1001

Email ID: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

#### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**