

## Jai Venkay Poultry Farms

February 16, 2018

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	7.74	<b>CARE D; Issuer Not Cooperating (Single D; Issuer Not Cooperating*)</b>	<b>Issuer not cooperating; Based on best available information.</b>
<b>Total</b>	<b>7.74 (Rupees Seven crore and Seventy Four lakh only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Jai Venkay Poultry Farms (JVPF) to monitor the rating vide e-mail communications dated October 04, 2017, January 19, 2018 and February 05, 2018 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating. **In the absence of minimum information required for the purpose of rating, CARE is unable to express opinion on the rating.** In line with the extant SEBI guidelines CARE's rating on Jai Venkay Poultry Farms bank facilities will now be denoted as **CARE D; 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 in November 17, 2016 the following were the rating strengths and weaknesses:*

#### **Key Rating weakness**

#### **Ongoing delays in servicing debt obligation due to delay in realizing debtors**

The firm has elongated operating cycle due to high inventory levels. The average inventory days of the firm during review period lies within the range of 150-180 days. Due to, the egg production starts from the small chicks takes on an average of 20 weeks from the date of starting farming of every batch of chicks, resulted in high inventory levels. The firm receives the payment from its customers within 60-80 days. However, the firm is making payment to its creditors within 15-20 days. The said factor resulted in high dependence on working capital borrowings. The average utilization of cash credit facility is 100% for the last 12 months ended October 31, 2016. Due to the above said factor the firm is unable to make the timely payment of debt obligation.

#### **Decline in PBILDT margin and fluctuating PAT margin during FY14-FY16**

The PBILDT margin of the firm declined from 24.61% in FY14 to 12.58% in FY16 due to increase in material costs i.e. The Poultry industry has low profitability margins as material costs (small chicks & feed) form significant portion of the total costs. Due to the above said factor along with high interest and depreciation cost the PAT margin of the firm has also been fluctuating and remained thin in the range of 0.21%-0.47% during FY14-FY16

#### **Leverage capital structure and weak debt coverage indicators**

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

The capital structure of the firm though improved marked by debt equity and overall gearing ratio from 2.27x and 3.14 respectively as on March 31, 2014 to 1.65x and 2.82x respectively as on March 31, 2016 due to increase in tangible net worth along with repayment of term loan.

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

JVPF faces stiff competition in the poultry industry from established brands like Vencobb, Suguna 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.

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

Constitution as a partnership firm 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***

***Experience of the partners for one decade in Poultry business***

JVPF was established in the year 2008 and promoted by Mr. K Venkata Rao and family members. Mr. K Venkata Rao and Ms. T Lakshmi Sujatha are qualified arts graduates and have one decade of experience in the poultry industry. Apart, Ms. T Bhavani Reddy is also a qualified commerce graduate has one decade of experience in the poultry industry. Due to long term presence in the market, the partners have good relations with suppliers and customers.

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

The total operating income of the company increased from Rs.6.83 crore in FY14 to Rs.11.67 crore in FY16 due to increase in repeat orders from existing customers and addition of new customers. Further, during 7MFY17, the firm achieved sales of Rs.8 crore.

***Stable demand outlook of poultry products***

Poultry products like eggs have large consumption across the country in the form of bakery products, cakes, biscuits and different types of food dishes in home and restaurants. The demand has been driven by the rapidly changing food habits of the average Indian consumer, dictated by the lifestyle changes in the urban and semi-urban regions of the country. The demands for poultry products are sustainable and accordingly, the kind of industry is relatively insulated from the economic cycle.

**Analytical approach:** Standalone

**Applicable Criteria**

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

[Criteria on assigning Outlook to Credit Ratings](#)

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

**About the Firm**

Andhra based, Jay Venkay Poultry Farms (JVPF) was established in the year 2008 and promoted by Mr. K Venkata Rao and family members. The firm is engaged in farming of egg laying poultry birds(chickens) and trading of eggs and live birds. The firm sells its products like eggs and live birds in Andhra Pradesh to retailers through own sales personnel. The firm buys chicks (small chickens) from Srinivasa hatcheries private limited, Vijayawada. The firm purchases raw materials like rice brokens, sun flower cake from local farmers, and soya from Harikrishna & Co, Suvarnalakshmi trading company.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

**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.

**About CARE Ratings:**

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is 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.

**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-Term Loan	-	-	-	4.18	CARE D; ISSUER NOT COOPERATING*
Fund-based - LT-Cash Credit	-	-	-	3.56	CARE D; ISSUER NOT COOPERATING*

**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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	4.18	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D (01-Dec-16)	-	-
2.	Fund-based - LT-Cash Credit	LT	3.56	CARE D; ISSUER NOT COOPERATING*	-	1)CARE D (01-Dec-16)	-	-

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