

**K.R.R.Poultry Farms**  
**February 06, 2020**

**Ratings**

Facilities	Amount(Rs. crore)	Rating1	Rating Action
Long term Bank Facilities	7.00	<b>CARE B+; Stable</b> (Single B plus; Outlook:Stable)	<b>Reaffirmed</b>
Total Facilities	<b>7.00</b> (Rupees 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 continues to be tempered by small scale of operations, working capital intensive nature of operations, highly fragmented industry with intense competition from large number of players and constitution of the entity as HUF with inherent risk of withdrawal of capital.

However, the rating derives comfort from long track record and vast experience of the promoter in the poultry industry, growth in total operating income and profitability margins, Improved capital structure and debt coverage indicators in FY19 (April 01 to March 31) and Stable demand outlook for the poultry products

**Rating sensitivities****Positive Factors**

- TOI improving to Rs 50 crore and above while PBILDT margins and PAT margin remaining steady at or above 7% and 2% respectively on sustained basis, going forward.
- Improvement in capital structure with 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 4.00x in any of the future years.

**Detailed description of the key rating drivers****Key Rating Weaknesses****Small scale of operations**

The scale of operations of the firm remained small albeit improvement and stood at 27.53 crores along with a tangible networth of 2.17 crore as of March 31 2019.

**Leveraged capital structure and weak debt coverage indicators albeit improved in FY19**

The debt profile of the firm includes predominantly of working capital facility and unsecured loan. The capital structure of the firm marked by overall gearing improved however continued to be leveraged at at 3.94x as on March 31, 2019 as compared to 4.99x as on March 31, 2018. KRR reported improved debt coverage however continues to be weak marked by TD/GCA at 16.44x in FY19 as against 19.52x in FY18 due to increased unsecured loans to augments its liquidity. Furthermore, the ability of the firm for servicing the interests towards the debts stood moderate, marked by its interest coverage ratio at 1.74x in FY19 improving from 1.67x in FY18

**Working capital intensive nature of operations**

The average operating cycle of the firm stood elongated at 134 days for FY19 (118 days for FY18) due to high inventory level of 119 days for FY19 (116 days for FY18) as the firm maintained high level of inventory as of March 31, 2019. Furthermore, the credit policy of the firm with its customers and suppliers is agreed upon for up to 30 days. Apart from that the farm needs to be maintained cleanly to reduce insanitation and outbreak of diseases. The firm also spends on vaccinating the chicks on a regular basis. The labors 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 85% for the past 12 months period ended December 2019.

**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.

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

**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.

**Liquidity analysis: Stretched**

The liquidity position of the company continues to be stretched. The company operates in a working capital intensive industry marked by higher inventory period. Current ratio remained at 1.11x as on March 31, 2019 and 1.19x as on March 31, 2018. Firm had a cash and bank balance of Rs. 0.12 crore as on March 31, 2019. Although there is no term loan obligation, the utilization of working capital limits remained high at 85% for the past twelve months period ended December, 2019.

**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.

**Growth in Total Operating income**

The Total operating income of the firm has improved from 24.85 crore in FY18 to 27.53 crore in FY 19 reporting an increase of 10.78% majorly contributed from increase in sale of eggs. Furthermore, during 9MFY20, the firm has achieved total sales of Rs.19.91 crore (Provisional).

**Satisfactory profitability margins albeit declining**

The profitability margins marked by PBILDT remained satisfactory albeit declined that stood at 5.30% in FY19 as against 5.40% in FY18. While, the PAT margin improved and stood at 1.45% in FY19 as against 1.34% in FY18 due to absorption of interest cost and depreciation provision.

**Stable demand outlook for the 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**

[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**

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)	31-03-2018	31-03-2019
	A	A
Total operating income	24.85	27.53
PBILDT	1.34	1.46
PAT	0.33	0.40
Overall gearing (times)	4.99	3.94
Interest coverage (times)	1.67	1.74

Audited

Status of non-cooperation with previous CRA: Nil

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 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	7.00	CARE B+; Stable	-	1) CARE B+; Stable (15-Mar-19)	1) CARE B+; Stable; ISSUER NOT COOPERATING* (22-Mar-18) 2) CARE B+; Stable (16-May-17)	-

**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.

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