

Manchal Agro And Poultry Farms Private Limited

September 12, 2018

Ratings

Facility	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	11.70	CARE B+; Stable (Single B Plus; Outlook Stable)	Assigned
Total	11.70 (Rupees eleven crore and seventy lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Manchal Agro and Poultry Farm Private Limited (mapfpl) are tempered by small scale of operations with declining total operating income during the review period, financial risk profile marked by a leveraged capital structure, working capital intensive nature of operations and thin PAT margins, highly fragmented industry with intense competition from large number of players, profitability margins are vulnerable to volatility in raw material prices and project implementation risk. The rating however derives the strength from the established track record and experience of the promoters more than two decades in Poultry business, satisfactory operating cycle during FY17, and Stable outlook demand of poultry products.

Going forward, the ability of the company to increase its scale of operations and improve profitability margins in competitive environment, the ability of the company to improve its capital structure, debt coverage indicators and manage its working capital requirements efficiently and the ability of the company to execute the project as planned, without any time and cost overruns.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with declining total operating income during the review period

MAPFPL was incorporated in the year 2011. Further, the scale of operations of the company remained small marked by Total operating income (TOI) at Rs.10.68 crore in FY17 coupled with low net worth base of Rs. 0.95 crore as on March 31, 2017 as compared to other peers in the industry.

In the year FY15, the company had net losses to a tune of Rs. 0.03 crore due to under absorbed overheads. However, in the year FY16, the company turned profitable, due to decrease in interest expenses and depreciation provisions.

The TOI of the company has been declining on a y-o-y basis from Rs. 14.49 crore in FY15 to Rs. 10.68 crore in FY17, due to decrease in orders from the customers. However, in FY18 (Provisional), the company achieved a TOI of Rs. 18.68 crore.

Financial risk profile marked by a leveraged capital structure, stressed liquidity position and fluctuating profitability margins

MAPFPL had a leveraged capital structure during review period. The Long-term debt-equity ratio and overall gearing ratio of the company improved y-o-y from 7.52x as on March 31, 2015 to 3.39 as on March 31, 2017 due to repayment of term loan and vehicle loan. However, the capital structure remained leveraged due to a low net worth base at Rs. 0.95 crore. In FY17, the debt profile of the company only consisted of unsecured loans to a tune of Rs. 3.21 crore.

The liquidity position of the company as marked by current ratio at 0.93x remained stressed, due to low level of inventory when compared to relatively higher creditors outstanding as on March 31st 2017. The company had high outstanding creditors relating to purchases from group concerns.

Further, the profitability margins of the company remained fluctuating during the review period. In FY16, the PBILDT margin deteriorated to 6.82% from 8.94% in FY15, due to increase in cost of raw material consumed. However, the same improved to 9.04% in FY17, on the back of decline in employee cost. The APAT margins fluctuated more or less in line with the PBILDT margins. In FY17, the APAT margin was marked at 0.53%.

Working capital intensive nature of operations

The company operates in a working capital intensive business; however, operating cycle of the entity stood satisfactory during FY17. The company had a high inventory period of 237 days in FY17, as the company was required to maintain high inventory level of parent bird and raw material stock to feed the birds in different growing stages and to mitigate

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

fluctuation in raw material prices. The company generally receives payment from its customers within a week. The raw material for feeding the birds was procured from its group firm RVV Agri Feeds Private Limited, resulting in a high credit period to MAPFPL. Due to a high creditor's period, the company had a satisfactory operating cycle during FY15-FY17, despite having operations in an industry where, operating cycle days are usually elongated in nature. Notwithstanding the above, the average CC utilization for last twelve months ended July 31st 2018 remained at high at 90%.

Highly fragmented industry with intense competition from large number of players

MAPFPL 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.

Profitability margins are vulnerable to volatility in raw material prices

Maize is relatively a small scale crop in India and being a rain-fed crop, any monsoon failure will affect its harvest. The Poultry industry consumes more than 50% of the domestic maize production and its demand is expected to exceed the overall supply in the future. As the poultry industry is virtually a buyers' market, any sharp increase in raw material prices may not be fully passed on to the consumers thereby affecting the profit margin of the company.

Project implementation risk

The company has borrowed a term loan of Rs. 6.40 crore in FY18, in order to construct a 4 layer shed and purchase cages for storing birds. The total cost of the project is Rs. 8.57 crore, the promoter's contribution being Rs. 2.17 crore. As on August 30th 2018, the company has incurred a project cost of Rs. 3.50 crore. (funded by term loan-Rs. 3 crore and promoters Rs. 0.50 crore). The project is expected to be completed by October 2018.

Key Rating Strengths

Established track record and experience of the proprietor more than two decades in Poultry business

MAPFPL was incorporated on February 25, 2011 by the Reddy family. The company is promoted by Mr. Chandra Sekhar Reddy and his wife Mrs. Shalini Reddy, who have more than two decades of experience in the poultry business. Due to long term presence in the market, the promoters have established good relations with suppliers and customers resulting into established customer base which helps in securing regular orders from existing customers.

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

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

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

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

[Rating Methodology-Manufacturing Companies](#)

About the Company

Manchal Agro and Poultry Farms Private Limited (MAPFPL) was incorporated on February 25, 2011 by Mr. Reddy & family. The firm is engaged in farming of egg, laying poultry birds (chickens) and trading of eggs and cull birds. The firm sells its total products like eggs and cull birds to customers in and around Hyderabad, Telangana. The firm mainly buys most of the chicks from Venkateshwara Hatcheries.

Brief Financials (Rs. crore)	FY16(A)	FY17(A)
Total operating income	11.83	10.68
PBILDT	0.81	0.97
PAT	0.01	0.06
Overall gearing (times)	5.85	3.39
Interest coverage (times)	2.45	2.00

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

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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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	-	-	-	4.50	CARE B+; Stable
Fund-based - LT-Term Loan	-	-	September 2025	7.20	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	4.50	CARE B+; Stable	-	-	-	-
2.	Fund-based - LT-Term Loan	LT	7.20	CARE B+; Stable	-	-	-	-

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