

## P. Muthukumar (HUF)

November 24, 2020

### Rating

Facilities / Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	5.25	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Total Facilities	5.25 (Rs. Five Crore and Twenty-Five Lakhs Only)		

*Details of instruments/facilities in Annexure*

### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from P. Muthukumar (HUF) to monitor the rating vide e-mail communications dated November 11, 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 P. Muthukumar (HUF)'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.***

The rating has been revised by taking into account of non-availability of requisite information due to non-cooperation by P. Muthukumar (HUF) with CARE's efforts to undertake a review of the outstanding rating as CARE views information availability risk as a key factor in its assessment of credit risk.

### Detailed description of the key rating drivers

*At the time of last rating on August 27, 2019 the following were the rating strengths and weaknesses:*

#### **Key Rating Weaknesses**

##### ***Small scale of operations with thin profitability margins***

Despite of having presence since four decades, the scale of operations remains small marked by its TOI, ranges between Rs. 12.70 Crores in FY16 to 14.10 Crores in FY18 with low networth base of Rs.2.12 Crores in FY18. The profitability margins also stood thin in the review periods. The profitability margins of the firm stood thin marked by PBILDT and PAT margin of 3.82% and 0.65% respectively in FY18. During FY18, PBILDT margin has declined by 23bps over FY17 mainly on account of increase in operating costs such as wages and bird feed expenses. However, PAT margin of the firm has improved by 477 bps over FY17 mainly on account of minimal depreciations costs. Further, GCA level of the company stood stable over FY17 and registered GCA of Rs. 0.26 crore in FY18 as against Rs. 0.25 Crore in FY17.

##### ***Ongoing capex Programme***

The firm has planned to expand its business operations by enhancing its poultry layer farm strength from 140000 birds to 200000 birds at the project cost of Rs. 3.66 Crore, with promoter's contribution of Rs.1.21 Crore and bank term loan of Rs. 2.45 Crore. As on July 29, 2019, the firm has incurred Rs. 2.10 Crore which was funded through bank and will avail the remaining portion within August 2019. The firm is exposed towards project execution risk, in terms of completion of the project with in the envisaged time and cost.

##### ***Working Capital Intensive Nature of Operations***

The average operating cycle of the firm stood elongated at 52 days for FY18 (47 days for FY17) due to high inventory level of 97 days for FY18 (75 days for FY17) as the firm has to generally maintain high level of inventory owing to long breeding period of 26 weeks before chicken start laying eggs coupled with maintenance of large stocks of poultry feed. As the firm selling its products through agency, the average collection period is within a week; however, it receives a credit period of upto 30-50 days from its suppliers. As per banker, the average utilization of cash credit limits remained at 90% for the past 12 months period ended June 30, 2019

<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

**Highly fragmented and competitive business segment due to presence of numerous players**

Indian poultry industry is largely unorganized with very few integrated players having presence across the value chain. The economics of the commercial poultry farming business is largely dependent on the realizations of eggs, broilers and the cost of feed. The prices of large integrated poultry players act as a yardstick for small poultry players like P. Muthukumar (HUF).

**Inherent risk of withdrawal of capital associated with a proprietorship firm.**

The firm being a proprietorship firm is exposed to inherent risk of capital withdrawals by proprietor due to its nature of constitution. Any significant withdrawals from the capital account would impact the net worth and thereby the firm's capital structure. However, the firm has pumped up fresh funds to its capital account to the tune of Rs. 0.60 Crore during the review periods.

**Susceptibility to fluctuation in poultry feed prices**

The firm's profitability is vulnerable to the volatility associated with the key raw material prices which are dependent upon prices of maize and soybean (Agro products). As the poultry industry is virtually a buyers' market, producers may not be able to pass on any sharp increase in raw material prices, as the egg prices are controlled by their own demand-supply dynamics.

**Key Rating Strengths****Long track record and vast experience of the promoter in the poultry industry**

Mr. M Senthil Kumar has experience of more than three decades in poultry farming. He has adequate acumen about various aspects of business which is likely to benefit the firm in long run. Furthermore, he is supported by experienced family members and other management personnel who are having varied experience in the field of technical, marketing, medical and financial aspects of business. The long track record has aided the firm in establishment of strong relationships with suppliers & customers.

**Consistency in the improvement of total operating income (TOI)**

The firm has reported consistent improvement in the Total operating income between FY16-18 at CAGR of 3.55% primarily on account of increase in egg sales. The firm sells 70% of the eggs, cull birds and manure by the local agents and 30% to direct customers in the local. Although, the firm has managed to improve its order books through its quality as well as on time delivery of the orders taken, and thereby resulting in the progress of its operating income. In FY18, TOI has increased in the growth rate of 6.57%.

**Satisfactory Capital Structure and moderate debt coverage indicators**

The capital structure of the firm stood satisfactory during the review periods and improved during FY18. It is marked by its overall gearing and debt equity ratio which stood at 1.07x and 0.30x respectively as on March 31, 2019 mainly on account of infusion of funds to the capital account, along with decrease in the debt component owing to minimal utilization of working capital facility as on balance sheet date and repayments on the term loans made thereon.

The firm has reported moderate debt coverage indicators marked by Total debt to GCA at 8.65x in FY18 due to minimal cash accruals generated by the firm. However, it has been improved compared to previous year, from 10.20x. On the other side, the ability of the firm for servicing the interests towards the debts stood satisfactory and stable, marked by its interest coverage ratio at 1.94x as on March 31, 2018, as against 1.92x during FY17.

**Analytical Approach:** Standalone

**Applicable criteria**

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

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

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

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

[Rating Methodology – Manufacturing Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

**About the Firm**

M/s. P Muthukumar (HUF) is a proprietorship firm started in the year 1978, by Mr. P Muthukumar in Namakkal district, Tamil Nadu. After the demise of Mr. P Muthukumar, his son Mr. Senthil Kumar took care of day to day operations. Mr. C.M. Subramani is the Karta and Mrs. Rajammal Muthukumar and Mr. M Senthil Kumar are co-perceners. The firm engaged in farming of egg laying poultry birds (chickens) and trading of eggs, Cull birds and their Manure. Currently, the firm has 40000 chicks, 40000 grower and 200000 layer birds. The firm has the capacity to produce 140000 eggs per day. The firm has availed moratorium

from march to September 2020 on its bank facilities amid COVID-19 RBI guidelines. Further the firm has availed moratorium as per RBI announcement on COVID-19 from March 2020 to September 2020.

Brief Financials (Rs. crore)	FY17 (A)	FY18(A)
Total Operating Income	13.23	14.10
PBILDT	0.52	0.54
PAT	0.06	0.09
Overall gearing (times)	1.61	1.07
Interest coverage (times)	1.92	1.94

A: 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	-	-	-	2.80	CARE B; Stable; ISSUER NOT COOPERATING*
Fund-based - LT-Term Loan	-	-	July 2027	2.45	CARE B; Stable; ISSUER NOT COOPERATING*

\*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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	2.80	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (27-Aug-19)	-	-
2.	Fund-based - LT-Term Loan	LT	2.45	CARE B; Stable; ISSUER NOT COOPERATING*	-	1)CARE B+; Stable (27-Aug-19)	-	-

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

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- Information not available

#### Annexure 4: Complexity level of various instruments rated for this Firm

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT-Term Loan	Simple

**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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### 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

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