

Raja Poultry Farm

June 29, 2018

Rating

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	12.00	CARE BB-; Stable (Double B Minus; Outlook Stable)	Assigned
Total	12.00 (Rupees Twelve Crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Raja Poultry Farm (RPF) are tempered by small scale of operations with fluctuating total operating income and profitability margin, highly fragmented industry with intense competition from large number of players, cyclical nature of poultry industry and exposure to country party risk constitution of entity as proprietorship concern. The rating, however, derives strength from experience of the partners for more than two decade in poultry business, comfortable capital structure and debt coverage indicators, operating cycle days and stable outlook demand of poultry products..

Going forward, ability of the firm to increase its scale of operations profitability margins and improve its capital structure and debt coverage indicators with proper management of working capital are the key rating sensitivities

Detailed Description of the key rating drivers

Key Rating Weaknesses

Small Scale of operations with fluctuating total operating income and profitability margins

RPF was established in the year 1992. Further, the scale of operations of the entity remained small marked by Total operating income (TOI) remained small at Rs.16.44 crore in FY17.

The total operating income of the firm has been fluctuating during the review period due to long gestation period of round 6-8months from the time he starts laying eggs to the period when chicken becomes cull bird and sold in the market for meat. It takes two months for the firm to get the birds ready for laying eggs due to which the revenue would be fluctuating in consecutive years The TOI was decreased from 12.98 crore in FY15 to 12.50 crore in FY16 due to reason mentioned above. however total operating income increased to Rs. 16.44 crore in FY16 due to increase in price of egg from Rs. 28 to Rs. 35.

The PBILDT margin of the firm has been fluctuating during the review period. The PBILDT margin declined from 14.46% in FY15 to 13.58% in FY16 due to increase in employee cost. However it is increase to 36.62% in FY17 due to decrease in employee cost, power and fuel cost and other expenses. The PAT margin of the firm decrease from 7.97% in FY15 to 6.14% in FY17 due to increase in interest cost at the back of avilment of term loan coupled with high depreciation cost and financial expenses.

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

The firm being a proprietorship firm is exposed to inherent risk of capital withdrawal by proprietor due its nature of constitution. Any substantial withdrawals from capital account would impact the net worth and thereby the gearing levels.

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

Highly fragmented industry with intense competition from large number of players

RPF 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 company.

Exposure to counter party risk

The firm is selling electricity produced from its Solar Power Project to BESCO at a cost of Rs.9.56 /- per unit. The firm is exposed to counter party credit risk since timely receipt of payment from BESCO remains critical from credit perspective.

Key Rating Strengths**Experience of the proprietor for more than two decade in Poultry business**

RPF was established in the year 1992 and promoted by Mrs. Mangamma, has more than two decade of experience in the poultry business. Due to long term presence in the market, the proprietor has good relations with suppliers and customers.

Comfortable capital structure and debt coverage indicators during review period

RPF has moderate capital structure during review period. The overall gearing ratio of the firm is deteriorated from 0.16x as on March 31, 2015 to 1.51x as on March 31, 2017 due to increase in total debt at the back of availment of term loan and working capital bank borrowings.

The debt coverage indicators of RPF stood comfortable during review period. Total debt/GCA of RPF improved from 3.33x in FY15 to 2.49x in FY17 due to increase in gross cash accruals.

The interest coverage ratio of the firm improved from 4.94 in FY15 to 7.46 x in FY16 due to decrease in interest expense. However, interest coverage ratio of the firm deteriorated to 6.06x in FY17 due to increase in interest cost on account of availment of term loan and working capital bank borrowing.

Comfortable operating cycle

The operating cycle of the firm comfortable stood at 32 days in FY17. The firm receives the payment from its customer within in a week and makes the payment to its supplier within 10-15 days.

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](#)

About the firm

Raja Poultry Farm (RPF) was established in the year 1992 and promoted by Mrs. Mangamma (proprietor). The firm is engaged in farming of egg, laying poultry birds (chickens) and trading of eggs, cull birds and their Manure. The firm sells its products like eggs and cull birds in, Assam, Kerala, Maharashtra and Tamil Nadu to retailers through own sales

personnel and through some dealers. The firm mainly buys chicks (small chickens) from Venkateshwara Hatcheries Private Limited. The firm purchases raw materials for feeding of birds like rice broken, maize, sun flower oil cake, shell grit, minerals and soya from local traders. Moreover, in September 2016 the firm started commercial operation of solar roof top power plant with installed capacity of 1.5 MW. The solar power plant is generating approximately 5500 units per day. RPF is selling this electricity to BESCOM at a cost of Rs.9.56 /- per unit and will generate a fixed income of Rs.1.92 crore (5500*9.56*365 days) every year.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	12.50	16.44
PBILDT	1.70	6.02
PAT	1.00	1.01
Overall gearing (times)	0.44	1.51
Interest coverage (times)	7.45	6.05

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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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	-	-	December 2031	4.94	CARE BB-; Stable
Fund-based - LT-Cash Credit	-	-	-	6.50	CARE BB-; Stable
Fund-based - LT-Cash Credit (Proposed)	-	-	-	0.56	CARE BB-; 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-Term Loan	LT	4.94	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Cash Credit	LT	6.50	CARE BB-; Stable	-	-	-	-
3.	Fund-based - LT-Cash Credit (proposed)	LT	0.56	CARE BB-; Stable	-	-	-	-

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