

Sri Vaibhava Lakshmi Enterprises Private Limited
January 14, 2019

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	40.00	CARE B+; Stable (Single B Plus; Stable)	Assigned
Total	40.00 (Rupees forty crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Sri Vaibhava Lakshmi Enterprises Private Limited (SVLEPL) are tempered by small scale of operations with fluctuating profitability margin, leveraged capital structure and debt coverage indicators during review period, elongated operating cycle, highly fragmented industry with intense competition from large number of players and cyclical nature of poultry industry. The rating, however, derives strength from satisfactory track record, experienced and resourceful promoter, growth in total operating income during review period and stable outlook demand of poultry products.

Going forward, ability of the company 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 profitability margins***

The scale of operations of the entity remained small marked by Total operating income (TOI) stood at Rs.37.47 crore in FY18 with moderate networth of Rs.6.21 crore. However, in H1FY19 the company achieved TOI of Rs. 23 crore.

The PBILDT margin of the company was fluctuating during review period at the back of fluctuation in raw material prices.

The PBILDT margin stood in the range of 16.01%-12.18% during FY16-FY18.

The PAT margins of the company declined from 3.14% in FY16 to 1.64% in FY18, due to increase in interest cost on account of enhancement in bank facilities and higher depreciation cost, which the company has taken from building an additional unit for its production in FY17.

Leveraged capital structure and weak debt coverage indicators

SVLEPL has leveraged capital structure during review period. The debt equity ratio of the company has deteriorated from 2.10x as on March 31, 2016 to 3.91x as on March 31, 2018 due to increase in total debt at the back of additional term loan, availed by the company (for New unit for production) and enhancement of Cash credit facility (to support business operations). Due to the above said factors and also on back of increase in unsecured loan by promoters to support the business, the Overall gearing ratio of the company, deteriorated from 3.23x as on March 31, 2016 to 5.52x as on March 31, 2018.

The debt coverage indicators of SVLEPL remained weak during review period. Total debt/GCA of remained fluctuating within the range of 7.79x-11.25x during review period on account of increased in debt levels, which the company has borrowed for adding a new plant at Telangana and also the unit is operating since FY18. Though on account of increase in

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debt levels, the interest coverage ratio of the company improved from 2.18x in FY16 to 2.69x in FY18 due to decrease in interest expense (on account of repayment of term loan) coupled with increase in PBILDT in absolute terms.

Elongated operating cycle

The operating cycle of the company though improved during the review period, but remained elongated. The operating cycle improved from 159 days in FY17 to 127 days in FY18 due to improvement in inventory days from 168 days in FY17 to 141 days FY18 due to the nature of business operations where in the company is required to keep high inventory level of parent bird and raw material stock to feed the birds in different growing stages and to mitigate fluctuation in raw material prices. SVLEPL receives payment from its customers on cash and carry basis. SVLEPL makes payment to its suppliers also within 15-30 days. The average utilization of working capital facility is 100% during past twelve months ended with October 31, 2018.

Highly fragmented industry with intense competition from large number of players

SVLEPL 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.

Cyclical nature of poultry industry and risk associated to any outbreaks of bird flu and other diseases

SVLEPL operates in a cyclical industry on account of outbreaks of bird flu and other diseases which can affect demand and cause prolonged impact on margins and turnover. The company margins are also susceptible to volatility in feed prices in the poultry business.

Key Rating Strengths

Satisfactory track record, experienced and resourceful promoter

Sri Vaibhava Lakshmi Enterprises Private Limited (SVLEPL) was incorporated in the year 2011 and promoted by Mr. K. Venkatanarayana (Managing Directors), Ms. K. Vasanta Sandhya Rani (Director) along with other family members. Due to long term presence in the market, the partners have good relations with suppliers and customers. Furthermore the promoter have also infused capital in the FY17 to support the business operations and in FY18 to the tune of Rs. 1.27 crore to support the increase in scale of business operations.

Growth in total operating income during review period

The total operating income of the company has been increasing y-o-y at a CAGR of 75.93% i.e., from Rs. 12.11 crore in FY16 to Rs. 37.47 crore in FY18 primarily on account of year on year increase in production, along with addition of one more poultry farming unit established in FY17. The new unit is owned and located at Telangana, with an area of 70 acres and also is in operational since FY18. Furthermore, during H1FY19, the company has achieved total operating income of Rs. 23 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.

Liquidity Analysis

The current ratio of the company is above unity during the review period and stood at 1.39x as on March 31, 2018 due to relatively high current assets as compared to current liabilities on account of higher amount of inventory. The cash and cash equivalents of the company stood at Rs.0.03 crore as on March 31, 2018.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

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

About the company

Sri Vaibhava Lakshmi Enterprises Private Limited (SVLEPL) was incorporated in the year 2011 and promoted by Mr. K. Venkatanarayana (Managing Directors), Ms. K. Vasanta Sandhya Rani (Director) along with other family members. The company is engaged in farming of egg, laying poultry birds (chickens) and trading of eggs, cull birds and their Manure. The company have two units, one unit located in Telangana with an area of 70 acres and second unit located at Nandigama with an area of 16 acres and both the units are utilised for poultry business. The company has recently started its production of second unit located at Telangana in 2017.

The company sells its products like eggs and cull birds to retailers through own sales personnel and through some dealers located in Andhra Pradesh and Telangana.

The company mainly buys chicks (small chickens) from Tirumala Hatcheries Private Limited and Srinivasa Hatcheries Private Limited. The company purchases raw materials for feeding of birds like rice broken, maize, sun flower oil cake from local farmers in Telangana and soya from traders of Maharashtra.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	14.47	37.47
PBILDT	1.76	4.88
PAT	0.21	0.61
Overall gearing (times)	3.65	5.52
Interest coverage (times)	2.15	2.69

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-Term Loan	-	-	Dec,2024	20.97	CARE B+; Stable
Fund-based - LT-Cash Credit	-	-	-	10.00	CARE B+; Stable
Fund-based - LT-Cash Credit(Proposed)	-	-	-	9.03	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-Term Loan	LT	20.97	CARE B+; Stable	-	-	-	-
2.	Fund-based – LT-Cash Credit	LT	10.00	CARE B+; Stable	-	-	-	-
3.	Fund-based – LT-Cash Credit(Proposed)	LT	9.03	CARE B+; Stable	-	-	-	-

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