

Press Release

PREMIUM CHICK FEEDS PRIVATE LIMITED

December 18, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 215.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BBB+**' (**read as ACUITE triple B plus**) to the Rs.215.00 crore bank facilities of Premium Chick Feeds Private Limited (PCFPL). The outlook is '**Stable**'.

The Maharashtra-based, Premium Chick Feeds Private Limited (PCFPL) was set up in 1991 to manufacture poultry feed. In 2001, the company commenced broiler farming operations in addition to its existing poultry feed business. The company is led by Mr. Girish Kolwankar, Mr. Shyam Dhawan and Mr. Neil Delgado. It has its presence in states like West Bengal, Assam, Andhra Pradesh, Orissa, Karnataka, Uttar Pradesh, Telangana, Tamil Nadu and Maharashtra. Further, it has started expansion in Uttar Pradesh from February – March 2019. It will also start expansion in Bihar and Gujarat from FY2021.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of PCFPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

PCPL was incorporated in 1991 by Mr. Girish Kolwankar, Mr. Shyam Dhawan and Mr. Neil Dalgado who has experience of over two decades in the poultry industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. PCPL has wide customer base with top ten customers accounting for ~15 percent of sales. Further the experience of the top management and second level management, company has been able to expand its business pan India.

Acuité believes that PCPL will continue to benefit from its experienced management and established relationships with customers and suppliers.

• Improvement in revenue and margins:

The revenue of the company has grown at a CAGR of 37.85 percent. The revenue stood at Rs.1378.79 crore in FY2018 as against Rs.1063.96 crore in the previous year. Further, the revenue grew by ~46.64 percent in FY2019 and stood at Rs.2021.79 crore. The improvement in revenue is backed by expansion of operations in various regions. The company, currently is expanding in Uttar Pradesh since February – March, 2019. It will be aggressively carrying out expansion for next 2 years in Uttar Pradesh. Further the company has planned to expand in Bihar and Gujarat from FY2021. The operating margins increased to 3.54 per cent in FY2019 from 3.23 per cent in FY2018 and 3.18 per cent in FY2017. The operating margins are on lower levels because company has to buy eggs to fulfill the demand since the parent birds which company has are not able to fulfill the entire demand. PAT margins have also increased to 1.43 per cent in FY2019 from 1.25 per cent in FY2018 and 1.19 per cent in FY2017. However, operating margins stood low at 1.50 per cent and PAT margins stood at 0.27 per cent for the period H1FY2020.

Acuité believes that the scale of operations will continue to increase on the back of region wise expansion carried out by the company. However, based on latest financial figures it seems challenging for the company to maintain the profitability level. Going ahead, the ability of the company to efficiently manage its profitability will remain the key rating sensitivity.

• **Moderate financial risk profile:**

The financial risk profile of PCPL is moderate marked by moderate net worth, debt protection measures and high gearing. The net worth stood moderate at Rs.94.47 crore as on 31 March, 2019 as against Rs.65.47 crore in the previous year. Though the gearing (debt-equity) is high it has marginally improved to 2.18 times as on 31 March, 2019 from 2.24 times as on 31 March, 2018. The total debt as on 31 March, 2019 of Rs.205.96 crore majorly comprises of term loan of Rs.33.24 and working capital facility of Rs.172.71 crore. Interest Coverage Ratio (ICR) marginally deteriorated to 4.30 times for FY2019 from 4.65 times for FY2018. Debt Servicing Coverage Ratio (DSCR) improved to 2.27 times for FY2019 from 1.97 times for FY2018. Total outside Liabilities to Tangible Net Worth (TOL/TNW) marginally improved to 3.15 times as on 31 March, 2019 from 3.27 times as on 31 March, 2018. Net cash accrual to total debt (NCA/TD) stood at 0.19 times for FY2019 from 0.18 times for FY2018.

Acuité believes that the financial risk profile of PCPL will continue to remain moderate over the medium term on account of its improving scale of operations and net cash accruals.

• **Efficient working capital management:**

PCPL has efficient working capital operations marked by low Gross Current Assets (GCA) of 52 days in FY2019 and FY2018. The inventory and debtor levels stood at 38 and 4 days in FY2019 as against 38 and 5 days in FY2017, respectively. However, the bank limits are fully utilized for the last six months ending October, 2019.

Acuité believes that the working capital cycle will continue to remain comfortable over the medium term on account of timely payment from the customers and business cycle of poultry farming.

Weaknesses

• **Cyclical nature of poultry industry and exposure to diseases:**

Bird flu and other diseases are critical risks in the poultry business, which can affect demand and cause prolonged impact on prices.

• **Susceptibility of profit margins to volatility in broiler and raw material prices**

The profit margins are susceptible to volatility in broiler prices - inherent in the poultry business. Raw materials refer to maize and soya beans which are required for manufacturing of poultry feeds. Raw materials' prices are largely dependent on several external factors like demand outlook and productions.

Rating Sensitivity

- Deterioration in financial risk profile of the company.
- Deterioration in profitability margins.

Material Covenants

No major covenants apart from gearing and financial indicators.

Liquidity Position: Adequate

PCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.38.90 crore in FY2019 as against Rs.25.95 crore in FY2018 and Rs.18.22 crore in FY2018, while its maturing debt obligation was Rs.9.39 crore in FY2019, Rs.7.74 crore in FY2018 and Rs.8.45 crore in FY2018. The cash accruals of the company are estimated to remain around Rs.58.69 to 126.03 crore during 2019-21. The company's working capital operations are comfortable as marked by low gross current asset (GCA) days of 52 in FY2019. However, working capital borrowings are fully utilized during the last 6 months' period ended October, 2019. The company maintains unencumbered cash and bank balances of Rs.51.33 crore as on March 31, 2019. The current ratio of the company stands at 1.05 times as on March 31, 2019. The company is likely to incur capex of Rs.16.00 crore over the medium which is likely to be funded by equity and external borrowing in the ratio of 1:3.

Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité believes that PCPL will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in PCPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its

capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	2021.79	1378.79
PAT	Rs. Cr.	29.01	17.20
PAT Margin	(%)	1.43	1.25
Total Debt/Tangible Net Worth	Times	2.18	2.24
PBDIT/Interest	Times	4.30	4.65

Status of non-cooperation with previous CRA (if applicable)

None.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Mar-2019	Term Loan	Long Term	6.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	12.50	ACUITE BBB+ (Withdrawn)
	Cash Credit	Long Term	70.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	14.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB+/Stable (Reaffirmed)
29-Jan-2018	Term Loan	Long Term	15.00	ACUITE BBB+/Stable

				(Reaffirmed)
	Term Loan	Long Term	12.50	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	52.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	25.00	ACUITE BBB+/Stable (Reaffirmed)
	Proposed Long Term Loan	Long Term	22.50	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	20.00	ACUITE BBB+/Stable (Reaffirmed)
	Letter of Credit	Short Term	3.00	ACUITE A2 (Reaffirmed)
18-Feb-2017	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Assigned)
	Cash Credit	Long Term	62.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Assigned)
	Letter of Credit	Short Term	3.00	ACUITE A2 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00*	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00#	ACUITE BBB+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB+/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00**	ACUITE BBB+/Stable (Reaffirmed)

*sublimit of short term loan Rs.10.00 crore & WCDL of Rs.35.00 crore.

**sublimit of WCDL of Rs.20.00 crore.

sublimit of WCDL of Rs.10.00 crore and OTSTL of Rs.10.00 crore.

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About Acuité Ratings & Research:

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