

Press Release

Premium Chick Feeds Private Limited

December 30, 2020



Rating Downgraded

Total Bank Facilities Rated*	Rs. 265.00 Cr. (Enhanced from Rs.215.00 crore)
Long Term Rating	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB+**' (**read as ACUITE triple B plus**) on the Rs.265.00 crore bank facilities of Premium Chick Feeds Private Limited (PCFPL). The outlook is '**Stable**'.

Reason for revision in rating

The rating downgrade is reflected by significant deterioration in profitability and net worth which has significantly impacted the financial risk profile of the company. The company has incurred operating loss of Rs.28.23 crore (Provisional) for FY2020 along with PAT loss of Rs.61.74 crore (Provisional) for FY2020. This has led to significant deterioration of net worth to Rs.32.73 crore (Provisional) as on 31 March, 2020 from Rs.94.47 crore as on 31 March, 2019. During the initial phase of COVID-19, rumors were that the virus spreads through poultry intake. This caused selling prices to fall down to around Rs.25.00 per kg during last quarter of FY2020 impacting the operating performance of the company. Acuité believes that company and management's extensive experience in the poultry industry will be helpful to bring back operations to the expected levels.

About the Company

The Maharashtra-based, Premium Chick Feeds Private Limited (PCFPL) was set up in 1991 to manufacture poultry feed. The company is led by Mr. Girish Kolwankar, Mr. Shyam Dhawan and Mr. Neil Delgado. In 2001, the company commenced broiler farming operations in addition to its existing poultry feed business. Company has its presence in West Bengal, Assam, Andhra Pradesh, Orissa, Karnataka, Uttar Pradesh, Telangana, Tamil Nadu and Maharashtra.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management:**

PCPL was incorporated in 1991 by Mr. Girish Kolwankar, Mr. Shyam Dhawan and Mr. Neil Dalgado who possess experience of over two decades in the poultry industry. The extensive experience has enabled the company forge healthy relationships with customers. PCPL has wide customer base with top ten customers accounting for ~15 percent of sales.

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

- **Improvement in revenue**

The revenue of the company has grown at a CAGR of 38.29 percent. The revenue stood at Rs.2021.79 crore in FY2019 as against Rs.1378.79 crore in the previous year. Further, the revenue grew by ~30.42 percent in FY2020 and stood at Rs.2636.91 crore. The improvement in revenue is on the back of increase in sales volume.

Acuité believes that the scale of operations will continue to increase in the near medium term. Revenues registered for the period April to September, 2020 is around Rs. 1184.00 crore. It is expected to be around Rs.2800 – 2900 crore as on 31 March, 2021. This is majorly because of the increase in the demand for chicken.

• **Efficient working capital management:**

PCPL has efficient working capital operations marked by low Gross Current Assets (GCA) of 61 days (Provisional) in FY2020 as against 52 days in FY2019. The inventory and debtor levels stood at 55 and 3 days in FY2020 (Provisional) as against 38 and 4 days in FY2019, respectively. However, the bank limits are utilized around 88 per cent for the last six months ending September, 2020.

Acuité believes that the working capital requirements will continue to remain comfortable over the medium term.

Weaknesses

• **Deterioration in profitability**

The operating margins deteriorated to negative 1.07 per cent (Provisional) in FY2020 from 3.54 per cent in FY2019. This is majorly because of the impact of rumors related to the spread of COVID19 from chickens. This led to significant reduction in the selling price during the month of February and March, 2020. Further, Profit after Tax (PAT) margins have also deteriorated to negative (2.34) per cent (Provisional) in FY2020 from 1.43 per cent in FY2019.

Acuité believes that the profitability will increase in near to medium term because of increase in prices from April, 2020.

• **Deterioration in financial risk profile**

The financial risk profile of PCFPL has deteriorated marked by deterioration in net worth to Rs.32.73 crore (Provisional) as on 31 March, 2020 as against Rs.94.47 crore in the previous year. The gearing (debt-equity) deteriorated to 7.03 times (Provisional) as on 31 March, 2020 from 2.18 times as on 31 March, 2019. The total debt as on 31 March, 2020 of Rs.230.01 crore majorly comprises term loan of Rs.32.70, unsecured loans from HDFC Bank of Rs.10.14 crore and working capital facility of Rs.187.18 crore. Interest Coverage Ratio (ICR) deteriorated to negative 1.29 times (Provisional) for FY2020 from 4.30 times for FY2019. Debt Servicing Coverage Ratio (DSCR) deteriorated to negative 0.90 times (Provisional) for FY2020 from 2.27 times for FY2019. Total outside Liabilities to Tangible Net Worth (TOL/TNW) deteriorated to 15.69 times (Provisional) as on 31 March, 2020 from 3.15 times as on 31 March, 2019. Net cash accrual to total debt (NCA/TD) deteriorated to negative 0.22 times (Provisional) for FY2020 from 0.19 times for FY2019.

• **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.

Liquidity Position: Adequate

PCPL has adequate liquidity at present in FY2021. However, net cash accruals stood negative to its maturing debt obligations. The company generated negative cash accruals of Rs.50.11 crore (Provisional) in FY2020 as against Rs.38.90 crore in FY2019 and Rs.25.95 crore in FY2018, while its maturing debt obligation was Rs.6.66 crore (Provisional) in FY2020, Rs.9.39 crore in FY2019 and Rs.7.74 crore in FY2018. The cash accruals of the company are estimated to remain around Rs.59.36 to 76.27 crore during 2021-23. The company's working capital operations are comfortable as marked by low gross current asset (GCA) days of 61 (Provisional) in FY2020. However, working capital borrowings are 88 per cent utilized during the last 6 months' period ended September, 2020. The company maintains unencumbered cash and bank balances of Rs.11.89 crore (Provisional) as on March 31, 2020. The current ratio of the company stands at 0.93 times (Provisional) as on March 31, 2020.

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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Crore	2636.91	2021.79
Profit after tax (PAT)	Rs. Crore	(61.74)	29.01
PAT margin	%	(2.34)	1.43
Total debt / Tangible Net worth	Times	7.03	2.18
PBDIT / Interest	Times	(1.29)	4.30

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-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Dec-2019	Term Loan	Long Term	6.00	ACUITE BBB+/Stable (Reaffirmed)
	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 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Term Loan	Long Term	15.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+/Stable (Reaffirmed)
	Cash Credit	Long Term	40.00	ACUITE BBB+/Stable (Reaffirmed)
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
	Cash Credit	Long Term	10.00
	Cash Credit	Long Term	40.00
	Term Loan	Long Term	14.00
	Cash Credit	Long Term	10.00
	Cash Credit	Long Term	10.00
	Term Loan	Long Term	15.00
	Cash Credit	Long Term	40.00
29-Jan-2018	Term Loan	Long Term	15.00
	Term Loan	Long Term	12.50
	Cash Credit	Long Term	52.00
	Cash Credit	Long Term	10.00
	Cash Credit	Long Term	25.00
	Proposed Long Term Loan	Long Term	22.50
	Cash Credit	Long Term	10.00
	Term Loan	Long Term	15.00
	Cash Credit	Long Term	20.00
	Letter of Credit	Short Term	3.00

***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 Available	10.65%	31 Dec, 2020	1.50	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	60.00*	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Term Loan	Not Available	10.65%	31 Jan, 2026	33.27	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00#	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Term Loan	Not Available	Not Available	Not Available	15.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	40.00**	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
WCDL	21 Feb 2020	10.65%	21 Feb 2021	15.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00***	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Term Loan	30 Sept 2019	10.40%	31 Jan 2024	6.00	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00##	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Term Loan	27 Jan 2020	10.60%	31 Mar 2025	6.75	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.48	ACUITE BBB/Stable (Downgraded from ACUITE BBB+/Stable)

*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.12.00 crore.

sublimit of WCDL of Rs.10.00 crore.

sublimit of WCDL of Rs.15.00 crore.

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Saurabh Rane Analyst - Rating Operations Tel: 02249294034 saurabh.rane@acuite.in	

About Acuité Ratings & Research:

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