

Press Release

Anjaneya Breeding Farm and Hatcheries (ABFH)

11 September, 2017



Rating Assigned

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 7.00 Cr. |
| Long Term Rating | SMERA B+ / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B+**' (**read as SMERA B plus**) on the Rs. 7.00 crore bank facility of Anjaneya Breeding Farm and Hatcheries (ABFH). The outlook is '**Stable**'.

Established in 2004 by Mr. Sadashiv Vasant Deshinge, ABFH is a proprietorship concern engaged in the business of poultry farming (sale of baby chicks, broiler chicken, rearing of parent birds) at Belgaum. The proprietor, Mr. Deshinge has over a decade of experience in the said line of business. The firm also manufactures poultry feed.

Key Rating Drivers

Strengths

Experienced management: The Proprietor, Mr. Sadashiv Vasant Deshinge has over a decade of experience in the said line of business.

Integrated business model: The firm has adopted an integrated business model (poultry farming including sale of baby and broiler chicken). Further, the firm benefits from the backward integration to manufacture poultry feed, which is expected to bring down the cost of production to a certain extent. The model has resulted in higher operating margins as reflected from the EBITDA of ~ 17.37 per cent in FY2017 (Provisional) from 19.50 per cent in FY2015. However, the margins declined in the last two years mainly on account of decline in sale of baby chicks as a percentage of total revenue from 68 per cent in FY2015 to 55.60 per cent in FY2017.

Weaknesses

Modest scale of operations

The scale of operations is moderate with revenue of Rs 23.61 in FY2017 (Provisional) as against Rs 14.06 crore in FY2016.

Weak financial risk profile

The weak financial risk profile is reflected in the high gearing of 6.29 times in FY2017 (Provisional) as against 14.95 times in FY2016. The net worth stood low at Rs 1.98 times in FY2017 (Provisional) as against Rs 0.88 crore in FY2016. The firm has relied upon external borrowings to fund its working capital requirements. However, the debt protection metrics are comfortable with ICR of 3.06 times in FY2017 (Provisional) as against 2.05 times in FY2016. The DSCR stands moderate at 1.56 times in FY2017 (Provisional) as against 1.12 times in FY2016.

Working capital intensive operations

The operations are working capital intensive with GCA of 105 days in FY2017 (Provisional) as against 130 days in FY2016. This is mainly due to inventory days of 27 in FY2017 (Provisional) as against 76 days in

FY2016. The overdraft limit has been fully utilised.

Susceptibility to risks inherent in the poultry industry

The demand for poultry is cyclical in nature. Further, the industry is also exposed to risks related to outbreak of bird flu and other diseases.

Risk of capital withdrawal

The firm is exposed to withdraw of capital at will considering the proprietorship nature of business.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of ABFH.

Outlook: Stable

SMERA believes that ABFH will maintain a stable outlook in the medium term while benefitting from the extensive experience of the proprietor and the integrated business model. The outlook may be revised to 'Positive' if the firm registers more than expected revenue while maintaining projected profitability. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability or if the working capital cycle elongates.

About the Rated Entity - Key Financials

For FY2017 (Provisional), ABFH reported Profit after Tax (PAT) of Rs. 1.16 crore on total operating income of Rs.23.61 crore compared with PAT of Rs. 0.34 crore on total operating income of Rs. 14.06 crore in FY2016.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|-------------------|
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 7.00 | SMERA B+ / Stable |

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