

Press Release

JAGADISH FEEDS AND FARMS

February 05, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.07 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (**read as SMERA BB minus**) on the Rs. 10.07 crore bank facilities of JAGADISH FEEDS AND FARMS. The outlook is '**Stable**'.

The Karnataka-based Jagadish Feeds and Farms (JFF) is a partnership firm engaged in poultry farming. The firm has capacity of rearing 15.60 lakh broiler birds. Out of these 30,000 are reared on own farms and the rest on contract farming - popularly known as integration farming. The firm has a hatchery to set around 40,000 hatchable eggs per week and capacity of producing 18000 tonnes per year of chick feed at Hasan taluka. The firm is led by Shri Jagadish, who has over 18 years of experience in poultry broiler farming, hatching and integration.

Key Rating Drivers

Strengths

- Integrated business profile and established track record**

JFF was established in 2003 by Mr. Jagadish and Mr. Girisha who possess experience of over a decade in poultry farming.

- Healthy revenue growth and profitability**

JFF has registered a healthy CAGR of 72 percent in FY2017. The operating income stood at Rs 16.75 crore in FY2017 as against Rs 11.06 crore in FY2015. The operating margin stood at 5.04 percent in FY2017 compared to 6.02 percent in FY2016. The firm is in the process of undertaking backward integration to produce hatchable eggs to meet its own internal consumption as well as to supply to other broiler farms. Going forward, SMERA expects the operating margins to improve due to decline in raw material cost and increase in revenue.

- Comfortable working capital cycle**

The working capital cycle is comfortable with GCA days of 98 days in FY2017 as against 72 days in FY2016. The moderate GCA days emanate from the inventory days of 61 and debtor days of 38 for FY2017. The working capital cycle stood at 57 days in FY2017. However, the average bank limit utilisation stood at ~90.00 per cent for the past six months ended 30 November, 2017.

Weaknesses

- Small scale of operations, below average financial risk profile**

The scale of operation is small with operating revenue of Rs 16.75 crore in FY2017 compared to Rs 11.62 crore in FY2016. The financial risk profile is below average with net worth of Rs 1.19 crore in FY2017 compared to 0.79 crore in FY2016. The gearing of the firm stood at 2.21 times in FY2017 compared to 2.62 times in FY2016. The debt-funded capex is expected to further impact gearing. The TOL/TNW stood at 3.70 times in FY2017 as against 3.23 times in FY2016. The net cash accrual stands at Rs.0.56 crore in FY2017 as against expected CPLTD of Rs 0.53 crore in FY2018. However, the firm has comfortable ICR of 2.94 times in FY2017 as against 2.56 times in FY2016.

- Cyclical nature of the poultry industry, exposure to outbreaks of bird flu and other diseases**

Bird flu and other diseases are critical risks in the poultry business, which can affect demand and impact on prices. Integrated nature of JFF farms makes it prone to widespread breakout of disease. However, JFF takes precautions by providing medicines/scheduled vaccines at their farms to mitigate the risk.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of JFF.

Outlook: Stable

SMERA believes that JFF will maintain a Stable outlook over the medium term owing to its promoters extensive experience in the poultry business. The outlook may be revised to 'Positive' in case of further improvement in debt coverage indicators and profitability margins. Conversely, the outlook may be revised to 'Negative' in case of weakening of the financial risk profile

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	16.75	11.20	5.62
EBITDA	Rs. Cr.	0.84	0.67	0.44
PAT	Rs. Cr.	0.50	0.34	0.17
EBITDA Margin (%)	(%)	5.04	6.02	7.84
PAT Margin (%)	(%)	2.96	3.02	3.03
ROCE (%)	(%)	23.57	24.22	35.78
Total Debt/Tangible Net Worth	Times	2.21	2.62	3.11
PBDIT/Interest	Times	2.94	2.56	2.14
Total Debt/PBDIT	Times	3.07	3.07	3.61
Gross Current Assets (Days)	Days	98	72	108

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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.57	SMERA BB- / Stable

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ABOUT SMERA

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