

Press Release

Prasad Feeds Private Limited

June 18, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of **'ACUITE BB-' (read as ACUITE double B minus)** on the Rs.10.00 crore bank facilities of Prasad Feeds Private Limited. The outlook is **'Stable'**.

The Hyderabad-based PFPL, incorporated in 2015, is promoted by Mr. Hemanth Kumar Karumanchi and his sister, Ms. Karthika. It is engaged in processing and supply of maize crop based silage or green fodder, which is used as cattle feed. Silage is primarily made of maize crop, by chopping the standing maize green crop into tiny pieces, and made into bale form of about 300 kgs with air tight packing for fermentation and durability. PFPL has long-term arrangement with the Department of Animal Husbandry (DoAH) and Government of Andhra Pradesh (GoAP) for supply of silage for about 40,000 metric tonnes per annum (MTPA).

Key Rating Drivers

Strengths

• Established presences in the agricultural sector

The Directors, Mr. Hemanth Kumar and Ms. Karthika have nearly a decade of experience in the agriculture sector. Mr. Hemanth Kumar holds directorship in the flagship entity 'Prasad Seeds Private Limited' (PSPL) which is a leading player in the toll services of seed processing for global seed players in India and abroad. Mr. Hemanth looks after the finance and operations of PSPL. The other Director, Ms. Karthika also holds directorship in PSPL, and she is proprietrix of 'Kakumanu Seeds', which is into seed processing activity.

PFPL is one of the first player in the green fodder based silage manufacturing in India. They introduced imported baler machine and silage choppers of large size into India. The management is instrumental and worked with the GoAP and Telangana in implementing the fodder scheme as first mover to address the fodder deficit situation in drought/drought like situation in couple of districts of the GoAP and Telangana to mitigate the effects of the natural calamities in the lines of National Fodder Policy. Started with an order for supply of 5000 MTPA to the DoAH in FY2016 (refers to financial year, April 1st to March 31st), now they have orders for supply of silage of about 40,000 MTPA in FY2019. The demand for the green fodder in Andhra Pradesh is for more than 200,000 MTPA. Acuite believes that the company is expected to enjoy the first mover advantage besides the advantage of strong management and financial support.

Weaknesses

• Seasonal nature and working capital intensive operations

The operations of the company are seasonal in nature, as their operations are majorly during the months of January to May, and August to October. The key input – maize crop of 60-80 day old is available during this period (two crop cycle in a year), and the company harvests more; this is to ensure adequate supplies in the summer season for the drought / drought like situation mandals / districts as indented by the respective district level officers of DoAH. This results in high Gross Current Assets (GCA) days as of the Balance Sheet date; as of March 31, 2018 (Provisional) the GCA stood at 403 days mainly constituted of about 309 days of inventory days, and 119 days of receivable days. As a result, the utilisation of bank lines is high in the last quarter of about 90-95 percent. Acuite believes that the operations continue to be working capital intensive basis the harvesting period, and the peak season of operations.

• Below-average financial risk profile

The financial risk profile is below-average marked by high gearing (debt-to-equity). However, its debt protection metrics are comfortable. Its gearing as on March 31, 2018 (Provisional) is about 5.5 times. The total debt of Rs.9.05 crore constitutes working capital debt of Rs.8.05 crore and Rs.1.0 crore of unsecured loan from the promoters. Its net worth is modest at Rs.1.64 crore as on March 31, 2018, as the company is three year old company. However, its debt protection metrics are comfortable as Interest Coverage Ratio stood at 2.69 times and net cash accruals to total debt at 0.09 times in FY2018. The company is enjoying only working capital limits, and there is no long term debt obligation to service. However, as the operations are seasonal with modest scale of operations and low accretion to reserves, the financial risk profile continues to be below-average over the medium term.

• Tender based business, highly fragmented nature of the industry

PFPL supplies 90 percent of feed to DoAH of GoAP which is tender based business, the growth depends on the ability to successfully bid for tenders. Also, the volume of business is monsoon dependent as better monsoon and rainfall may reduce the dependency and requirement of the green fodder. Also, entry of new players will have a bearing on the profitability as it is tender based. Acuite believes that though PFPL enjoys the first mover advantage with good amount of investment on the equipment to handle the volumes, however their operations are susceptible to the tender based business and vagaries of monsoon.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the PFPL to arrive at this rating.

Outlook: Stable

Acuite believes that PFPL will maintain a 'Stable' outlook owing to the experienced management in the agriculture sector. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability and improving its capital structure by equity infusion. Conversely, the outlook may be revised to 'Negative' in case any further stretch in its working capital cycle leading to deterioration of its liquidity and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	13.97	2.51	-
EBITDA	Rs. Cr.	1.38	0.46	-
PAT	Rs. Cr.	0.34	0.01	-
EBITDA Margin	(%)	9.85	18.28	-
PAT Margin	(%)	2.43	0.30	-
ROCE	(%)	13.57	9.49	-
Total Debt/Tangible Net Worth	Times	3.56	38.07	-
PBDIT/Interest	Times	4.30	4.68	-
Total Debt/PBDIT	Times	3.72	8.71	-
Gross Current Assets (Days)	Days	185	370	-

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

<https://www.acuite.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB- / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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