

Press Release

Prasad Feeds Private Limited

September 06, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE B+** (read as **ACUITE B plus**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.10 crore bank facilities of PRASAD FEEDS PRIVATE LIMITED (PFPL). The outlook is '**Stable**'.

The rating upgrade reflects regularization of overdrawings in its cash credit facilities; for the past six months through July 2019, there were no overdrawals in the cash credit account. The rating also reflects regular order flow from Department of Animal Husbandry (DoAH), Government of Andhra Pradesh (GoAP) and experienced management to support the revenues and cash flows. However, the rating remains constrained by modest scale of operations and below-average financial risk profile.

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 making into a bale form of about 300 kgs with air tight packing for fermentation and durability. PFPL has long-term arrangement with DoAH – GoAP for supply of silage for about 30,000 metric tonnes per annum (MTPA). Further, the company has orders of 3000 MTPA from private parties such as National Dairy Development, MNR Dairy, various Goshalas among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management 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 1 to March 31), now they have orders for supply of silage of about 30,000 MTPA in FY2020. The demand for the green fodder in Andhra Pradesh is for more than 200,000 MTPA. Acuité believes that the company is expected to enjoy the first mover advantage besides the advantage of strong management.

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. Gross Current Assets (GCA) days as of March 31, 2019 (Provisional) stood at 126 as against 262 days in FY2018, which constituted inventory days of about 45 days against 117 days in FY2018. The swift changes in inventory holding days are owing to availability of crop for harvesting, and indent flow for delivery of material. Further, debtor days stood high at 82 days in FY2019 (Provisional) as against 149 days in FY2018. The utilisation of bank lines is about 80-85 per cent for the last six months through July 2019. Acuité believes that the operations continue to be working capital intensive on the basis of the harvesting period, the peak season of operations and slow realisation of debtors, though guaranteed.

• **Moderate financial risk profile**

The company has followed a moderately aggressive financial policy in the past, the same is reflected through its peak gearing levels of 5.31 times as on March 31, 2018 due to modest net worth and high reliance on working capital borrowings. The leverage levels however improved to around 1.65 times as on March 31, 2019 (Provisional). Net worth is modest at Rs.2.22 crore in FY2019 (Provisional) as against Rs.1.72 crore in FY2018. Short term debt stood at Rs.2.86 crore as on 31 March, 2019 as against Rs.8.06 crore as on 31 March, 2018. The company incurred capex of Rs.2.5 crore over the last three years to expand its scale of operations. The company, on the other hand, generated cash accruals in the range of around Rs.1.1 crore in FY2019 (Provisional) as against Rs.0.87 crore in FY2018. Cash accruals are expected to be in the range of Rs.1.1 crore – Rs. 1.3 crore against zero debt obligations. Interest coverage ratio and net cash accruals to total debt stood moderate at 3.42 times and 0.31 times in FY2019 (Provisional) as against 3.67 times and 0.09 times in FY2018 respectively. Acuité believes that financial risk profile is expected to be moderate with the modest net worth over the medium term.

Liquidity Position:

The liquidity position is stretched marked by modest cash accruals and working capital intensive. Its accruals are about Rs. 1.14 crore in FY2019 (Provisional). Its expected cash accruals are in the range of Rs.1.1 crore – Rs. 1.3 crore against the zero repayment obligations. Operations are working capital intensive with GCA days of 126 days in FY2019 (Provisional) as against 262 days in FY2018 due to stretch in debtors resulted in moderate utilisation of its limits at 80-85 per cent over last 6 months through July 2019. Its current ratio is weak at 1.02 times in FY2019 (Provisional) as against 0.95 times in FY2018. Acuité believes that with modest accruals and working capital operations, the liquidity profile continues to be stretched over the medium term.

Outlook: Stable

Acuité 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	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	20.20	15.48	13.97
EBITDA	Rs. Cr.	1.90	1.45	1.38
PAT	Rs. Cr.	0.50	0.23	0.34
EBITDA Margin (%)	(%)	9.38	9.38	9.85
PAT Margin (%)	(%)	2.48	1.47	2.43
ROCE (%)	(%)	15.32	7.46	13.57
Total Debt/Tangible Net Worth	Times	1.65	5.31	3.56
PBDIT/Interest	Times	3.42	3.67	4.30
Total Debt/PBDIT	Times	1.91	7.04	3.72
Gross Current Assets (Days)	Days	126	262	185

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/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
23-Aug-2018	Cash Credit	Long Term	8.00	ACUITE D (Downgraded)
	Proposed	Long Term	2.00	ACUITE D (Downgraded)
18-Jun-2018	Cash Credit	Long Term	8.00	ACUITE BB- / Stable (Assigned)
	Proposed	Long Term	2.00	ACUITE BB- / Stable (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE B+ / Stable (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+ / Stable (Upgraded)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuite.in	

About Acuite Ratings & Research:

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