

Press Release

Lotus Farms

September 10, 2020

Rating Downgraded



Total Bank Facilities Rated*	Rs.73.80 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Downgraded from ACUITE BBB-)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.73.80 crore bank facilities of Lotus Farms, the outlook is '**Stable**'.

Reason for Downgrade

The rating downgrade is on account of significant losses in operating margins followed by cash losses in FY2020, thereby resulting in net worth erosion. The firm has incurred operating losses of Rs.9.85. The company incurred inventory losses due to substantial dip in the operating revenues in Q4FY2020 coupled with inventory losses, as the broilers were destroyed due to no demand in the market, led to EBITDA loss of Rs.9.85 crore and a net loss of Rs.27.79 crore in FY2020 (Provisional). This resulted in deterioration in the net worth to Rs.31.50 crore as on 31 March 2020 (Provisional) as against Rs.52.00 as on 31 March 2019 and inventory losses led to stretch in the working capital. Group was in the capital expenditure mode to increase its feed processing capacity during FY2018 and FY2019; this led to an increase in financial leverage. Stretch in liquidity led to a reduction in current ratio to 0.93 times as on 31 March 2020.

Acuite has taken the note of unsecured loans of Rs.10.15 crore been infused by the promoters in FY2020 to support the liquidity.

About the company

Hyderabad-based Lotus Farms (LF) was established in 1996 by Mr. Damodar Reddy, Mr. Srihari Reddy and Mrs. Surekha Marupuru. The firm is engaged in the business of poultry broiler farming, hatching, and feed processing. The firm has an in-house facility for rearing birds, hatching eggs, and processing feed.

About the group

Telangana-based, Lotus Farms (LF) and Lotus Poultries Private Limited (LPPL) together referred to as Lotus Group (LG) are promoted by Mr. Damodar Reddy, Mr. Srihari Reddy and Mrs. Surekha Marupuru. LF is engaged in poultry broiler farming, egg-hatching and feed processing, whereas LPPL is engaged only in egg-hatching.

Analytical Approach

For arriving at this rating, Acuite has consolidated the business and financial risk profiles of Lotus Farms (LF) and Lotus Poultries Private Limited (LPPL) together referred to as 'Lotus Group' (LG). The consolidation is in the view of common management, strong operational linkages between the entities, and a similar line of business. Extent of consolidation: Full.

Key Rating Drivers

Strengths

• Experience Management and long track record of operations

Lotus Group is engaged in the business of poultry broiler segment and is promoted by Mr. Damodar Reddy, Mr. Srihari Reddy and Mrs. Surekha Marupuru, who possess experience of more than two decades in the poultry industry. The extensive experience has enabled the group to forge healthy relationships with customers and suppliers. Lotus Group has a wide customer base with top ten customers accounting for ~40 percent of sales. Moreover, having a long track record of operations

of more than two decades has helped the group to scale up its operations, operating income stood at Rs.236.17 crore in FY2020 (Provisional) as against Rs.230.81 crore in FY2019.

Acuite believes that Lotus Group will continue to benefit from its experienced management and established relationships with customers.

Weaknesses

• Average financial risk profile

The financial risk profile of the group is average marked by average net worth and debt protection metrics and high gearing. The net worth of the group deteriorated to Rs.31.50 crore as on 31 March 2020 (Provisional) from Rs.52.00 crore as on 31 March 2019. The decline is on account of negative profitability.

The gearing (debt-equity) level stands at 3.34 times as on 31 March 2020 (Provisional) as against 1.79 times as on 31 March 2019 and TOL/TNW stands at 4.72 times as on 31 March 2020 (Provisional) as against 2.08 times as on 31 March 2019. The increase is on account of the deterioration in net worth, infusion of unsecured loan by the promoters and high working capital utilization. The total debt of the group stood at Rs.105.16 crore as on 31 March 2020 (Provisional) which consists of long term debt of Rs.3779 crore, unsecured loans of Rs.16.79 crore and working capital borrowings of Rs.50.58 crore. Negative profitability in FY2020 has led to deterioration in debt protection; interest coverage ratio stood at (1.11) times in FY2020 (Provisional) as against 3.66 times in FY2019 and debt service coverage ratio stood at (0.69) times in FY2020 (Provisional) as against 1.63 times in FY2019. Debt/ EBITDA stood at (10.90) in FY2020 (Provisional) as against 4.06 times in FY2019.

Going forward, Acuite believes the financial risk profile of the group will improve substantially on account of improvement in profitability and no further debt-funded capex plan.

• Deterioration in working capital

The operations of the group are moderately working capital intensive marked by Gross Current Assets (GCA) of 134 days in FY2020 (Provisional) as against 119 days in FY2019. The inventory holding period increased to 107 days in FY2020 (Provisional) as against 99 days in FY2019. The increase in inventory days in FY2020 is on account of the high value of feed been stocked and no demand for chicken in the market has led to high commercial inventory getting stuck. The current ratio stood at 0.96 times as on 31 March 2020 (Provisional) as against 1.17 times as in 31 March 2019, the reduction is on account of stretch in the creditor.

Going forward, Acuite believes that with demand for broilers getting normal post the lockdown period, the inventory management will improve.

• Susceptibility of revenue and profitability to bird diseases

Bird flu and other diseases are critical risks in the poultry business, which can affect demand and cause a prolonged impact on prices. The rumors that COVID-19 was spread from broilers led demand to fall drastically; this led the inventories to pile up. And as the carrying cost for broiler is high, 18 lakhs broilers were being destroyed during this period, which led to inventory losses. Thereby impacting the profitability of the group. Operating margins reduced to (4.17) percent in FY2020 (Provisional) as against 9.69 percent in FY2019.

Rating Sensitivities

- Lower than expected operating performance
- Significant improvement in profitability margins
- Deterioration in the working capital cycle and liquidity profile of the group

Material Covenants

None

Liquidity Position: Stretched

LG has stretched liquidity marked by net cash accruals vis-à-vis its repayment obligations. Group generated net cash accruals of Rs. (18.66) crore in FY2020 (Provisional) as against repayment obligations of Rs.5.62 crore for the same period. The repayment were being supported from the unsecured loans of Rs.10.15 crore been infused by the promoters in FY2020. The average working capital utilization stood at ~92 percent for the last six months ended July-2020. The current ratio stood at 0.93 times as on 31 March 2020 (Provisional) as against 1.12 times as on 31 March 2019.

Acuité believes that the liquidity position of the group is likely to improve over the medium term on account of the revival in demand in the market for broilers which in turn will help the group to register positive profitability.

Outlook: Stable

Acuité believes that the group 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 a substantial and sustained improvement in group's operating income or profitability while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in working capital or weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	236.17	230.81
PAT	Rs. Cr.	(27.79)	6.78
PAT Margin	(%)	(11.77)	2.94
Total Debt/Tangible Net Worth	Times	3.34	1.79
PBDIT/Interest	Times	(1.11)	3.66

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Trading Entities - <https://www.acuite.in/view-rating-criteria-61.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-60.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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 (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
20-June-2019	Cash Credit	Long term	41.00	ACUITE BBB-/ Stable (Assigned)
	Cash Credit	Long term	6.90	ACUITE BBB-/ Stable (Assigned)
	Term Loans I	Long term	1.21	ACUITE BBB-/ Stable (Assigned)
	Term loans II	Long term	21.26	ACUITE BBB-/ Stable (Assigned)
	Term Loans III	Long term	1.87	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Facility	Long term	1.56	ACUITE BBB-/ 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	41.00	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.90	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
Term Loans I	Not Available	Not Applicable	Not Available	1.21	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
Term loans II	Not Available	Not Applicable	Not Available	21.26	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
Term Loans III	Not Available	Not Applicable	Not Available	1.87	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.56	ACUITE BB+/ Stable (Downgraded from ACUITE BBB-)

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About Acuité Ratings & Research:

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