Press Release

Lotus Farms

October 08, 2021

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** on the Rs.73.80 crore bank facilities of Lotus Farms (LF). The outlook is **'Stable.'**

The rating reaffirmation is on account long track record of operations of over 2 decades, experienced management and average but improved financial risk profile. Lotus Group's operating income in FY21 (Provisional) grew by 17.74per cent to Rs.273.81 crore and net profit margin stood at 2.52per cent compared to net losses reported in FY20. This supported the improvement in financial risk profile of the group marked by lower gearing position and higher debt protection metrics. The group's debt to equity ratio, as on March 31, 2021 (Provisional) stood at 2.05 times against 3.53 times as on March 31, 2020. While, interest coverage ratio and DSCR stood at 3.24 times and 1.60 times, respectively. Working capital cycle got stretched in FY21 (Provisional) marked by GCA days of 150 compared to 130 a year back. Average fund-based bank limit utilization, during the six months through August 2021, stood at over 80per cent.

About the Company

Hyderabad-based 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 the rating, Acuité 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

- **Experienced 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 of the promoters has enabled the group to forge healthy relationships with customers and suppliers. Moreover, a long track record of operations of more than two decades has enabled the group to scale up its operations with its operating income standing at Rs.273.81 crore in FY2021 (Provisional) as against Rs.230.24 crore in FY2019.

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

In FY21 (Provisional), the group reported an improvement in the overall operating performance. The group's operating income increased by 17.74per cent to Rs.273.81 crore. Net profit margin stood at 2.52per cent FY21 (Provisional). Acuite expects the group's operating revenue to increase at a CAGR of ~6per cent during FY22 to FY24 and its net profit margin would be in the range of 2 to 2.7 per cent during the said period.

- **Average but improved financial risk profile**
  Lotus group has average financial risk profile marked by modest net worth, moderate gearing position and debt protection metrics. In FY21 (Provisional), financial risk profile of the group improved with improvement in overall operating performance. Net worth of the group, as on March 31, 2021 (Provisional) stood at Rs.48.19 crore compared to Rs.30.01 crore as on March 31, 2020. Besides higher net profit, capital infusion supported the improvement in net worth.

  Debt to equity ratio of the group improved to 2.05 times as on March 31, 2021 (Provisional) from 3.53 times a year back. This was a result of higher net worth and lower debt level. As on March 31, 2021 (Provisional) total debt stood at Rs.98.94 crore, comprising long-term debt of Rs.34.54 crore, short-term debt of Rs.45.43 crore and unsecured loans from directors/related parties of Rs.18.97 crore. Going ahead, debt to equity ratio is expected to improve to 1.2 times to 1.74 times in the medium term. Total outside liabilities to tangible net worth (TOL/TNW) stood at 3.19 times as on March 31, 2021 (Provisional) compared to 4.92 times as on March 31, 2020.

  Interest coverage ratio of the group stood at 3.24 times in FY21 (Provisional) and debt service coverage ratio (DSCR) stood at 1.60 times for the year. Over a medium term, interest coverage ratio would remain in the range of 2.86 times to 2.96 times and DSCR at 1.46 times to 1.77 times.

Weaknesses

- **Deterioration in working capital**
  Lotus Group's working capital cycle got stretched in FY21 (Provisional) marked by gross current asset (GCA) days of 150 against 130 for FY20. This was mainly led by higher inventory days, which stood at 149 for FY21 (Provisional) compared to 108 for FY20. Although higher creditor days (88 for FY21 (Provisional) vs 70 a year back) offered some support. Average bank limit utilization during the 6 months through August 2021 was ~82-87per cent. Going ahead, during FY22 to FY24, GCA days are estimated to remain ~129-135.

- **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. Though the group witnessed good improvement in overall operating performance in FY21 (Provisional) after a weak performance in FY20 due to Covid-19-led fears, sustaining the improvement would be a key going ahead.

Rating Sensitivities

- Significant improvement in operating income while maintaining profit margins
- Deterioration in working capital cycle

Material Covenants

Current ratio above 1.33 times

Liquidity Position – Adequate

Lotus Group has adequate liquidity. With improvement in operating performance, liquidity position of the group also improved and fund infusion further supported liquidity position. Current ratio of the group improved but stood at a moderate level of 1.08 times as on March 31, 2021 (Provisional).

Going ahead, liquidity position of the group is expected to remain adequate with sufficient net cash accruals to maturing debt obligations. Cash accruals are estimated in the range of Rs.16.69 crore to Rs.18.74 crore during FY22 to FY24 against debt repayment obligations of Rs.5.75 crore to Rs.8.29 crore during the same period.

Outlook: Stable

Acuité believes that Lotus Group would maintain a 'Stable' outlook over a medium term with the industry experience of its promoters. The outlook may be revised to 'Positive' if there is a substantial and sustained improvement in the group's operating performance. Conversely, the outlook may be revised to 'Negative' in case of lower than estimated revenue and net profit and deterioration in working capital cycle or weakening of its capital structure, resulting in deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)*	FY20 (Actual)
Operating Income	Rs. Cr.	273.81	232.55
PAT	Rs. Cr.	6.90	(29.07)
PAT Margin	(%)	2.52	(12.50)
Total Debt/Tangible Net Worth	Times	2.05	3.53
PBDIT/Interest	Times	3.24	(1.23)

**Acuite has assumed tax provision of Rs.3.43 Cr.*

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

CRISIL vide press release dated November 17, 2020 has mentioned the rating of LF as 'B/Stable Issuer Not Cooperating' dated November 17, 2020.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm
- Trading Entities - https://www.acuite.in/view-rating-criteria-61.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Consolidation Of Companies - https://www.acuite.in/view-rating-criteria-60.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
10-Sep-2020	Cash Credit	Long Term	41.00	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
	Cash Credit	Long Term	6.90	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
	Term Loan	Long Term	1.21	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
	Term Loan	Long Term	21.26	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
	Term Loan	Long Term	1.87	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
	Proposed Bank Facility	Long Term	1.56	ACUITE BB+/Stable (Downgraded from ACUITE BBB-)
20-Jun-2019	Cash Credit	Long Term	41.00	ACUITE BBB-/Stable (Assigned)
	Cash Credit	Long Term	6.90	ACUITE BBB-/Stable

				(Assigned)
	Term Loan	Long Term	1.21	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	21.26	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	1.87	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	1.56	ACUITE BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
South Indian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	41.00	ACUITE BB+/Stable (Reaffirmed)
South Indian Bank	Term Loan	Not Available	Not Available	Not Available	1.21	ACUITE BB+/Stable (Reaffirmed)
South Indian Bank	Term Loan	Not Available	Not Available	Not Available	21.26	ACUITE BB+/Stable (Reaffirmed)
Indian Overseas Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.90	ACUITE BB+/Stable (Reaffirmed)
Indian Overseas Bank	Term Loan	Not Available	Not Available	Not Available	1.87	ACUITE BB+/Stable (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.56	ACUITE BB+/Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.