

Press Release

Lotus Poultries Private Limited

June 21, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 12.29 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE BBB minus**) on the Rs. 12.29 crore bank facilities of Lotus Poultries Private Limited (LPPL). The outlook is '**Stable**'.

LPPL is a private limited company set-up in 2010 by Mr. Damodar Reddy, Mr. Srihari Reddy and Mrs. M. Surekha. The company is engaged in the business of poultry broiler farming, hatching. The company has an in-house facility for rearing birds, hatching eggs. The company is based out in Hyderabad with its operations exclusively in nearby region of Bangalore, Karnataka.

Analytical Approach

Acuité has considered the consolidated business and financial risk profiles of Lotus Farms and Lotus Poultry Private Limited, collectively referred to as 'Lotus Group.' The consolidation is on account of common management, same value chain with business line synergies within the group. Extent of consolidation: full.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

Lotus Group was incorporated in 1996 by Mr. Damodar Reddy, Mr. Srihari Reddy and Mrs. M. Surekha who possess experience of over two decades in the poultry industry. The extensive experience has enabled the group forge healthy relationships with customers and suppliers. Lotus Group has wide customer base with top ten customers accounting for ~35 percent of sales. Acuité believes that Lotus Group will continue to benefit from its experienced management and established relationships with customers.

• Moderate financial risk profile

Lotus Group's financial risk profile is comfortable marked by moderate net worth, comfortable debt protection measures and moderate gearing. The net worth is high at Rs.58.41 crore as on 31 March, 2019(P) as against Rs.46.86 crore as on 31 March, 2018. The gearing of the group stood moderate at 1.48 times as on March 31, 2019(P) as against 1.22 times as on 31 March, 2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood low at 1.72 times as on 31 March, 2019(P) as against 1.58 times as on 31 March, 2018. Interest Coverage Ratio (ICR) improved to 3.65 times in FY2019(P) from 4.55 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.15 times as on 31 March, 2019(P) as against 0.31 times as on 31 March, 2018. Debt Service Coverage Ratio (DSCR) stood at 2.02 times in FY2019(P) as against 3.72 times in FY2018. Acuité believes that the financial risk profile of Lotus group will continue to remain comfortable over the medium term on account of its improving scale of operations and net cash accruals.

Efficient working capital management

Lotus group has efficient working capital operations marked by moderate Gross Current Assets (GCA) of 118 days in FY2019(P) and 68 days in FY2018. The inventory and debtor levels stood at 99 and 8 days in FY2019(P) as against 55 and 7 days in FY2018, respectively. The increase in inventory days is majorly due to feedstock of Rs.30.21 crore in FY2019(P) as against Rs.4.48 crore in FY2018. Thus, the average utilisation of bank limits stood at ~75 percent in the last twelve months ended January, 2019. Acuité believes that the working capital requirements will continue to remain comfortable over the medium term on account of timely payment from the customers

and to the suppliers.

Weaknesses

- **Cyclical nature of poultry industry, exposure to diseases**

Bird flu and other diseases are critical risks in the poultry business, which can affect demand and cause prolonged impact on prices.

- **Limited bargaining power**

Lotus Group purchases day old chicks (DOC) from Venkateshwara Hatcheries which results in relatively weaker bargaining power.

Liquidity Position

The group has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 13.18 crore to 18.36 crore during FY2017-19 against the repayment obligation of Rs. 3.38 crore to Rs. 6.38 crore during the same period. The cash accruals of the group are estimated to remain in the range of around Rs. 16.72 crore to Rs. 22.01 crore during 2019-21 against repayment obligation of Rs. 3.99 crore to Rs.4.62 crore during the same period. The group's working capital operations are comfortable marked by gross current asset (GCA) days of 118 days for FY2019 (Provisional). The company maintains cash and bank balances of Rs. 6.34 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.11 times as on 31 March 2019 (Provisional). Acuite believes that the liquidity of the company is likely to remain moderate over the medium term on account of moderate cash accrual against lower debt repayments over the medium term.

Outlook: Stable

Acuite 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 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 weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	230.48	241.26	281.02
EBITDA	Rs. Cr.	22.33	29.67	33.20
PAT	Rs. Cr.	6.54	11.25	12.78
EBITDA Margin	(%)	9.69	12.30	11.81
PAT Margin	(%)	2.84	4.66	4.55
ROCE	(%)	12.98	22.88	26.84
Total Debt/Tangible Net Worth	Times	1.48	1.22	2.00
PBDIT/Interest	Times	3.65	4.55	3.81
Total Debt/PBDIT	Times	3.78	1.90	2.00
Gross Current Assets (Days)	Days	118	68	59

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Manufacturing Entities- <https://www.acuite.in/view-rating-criteria-4.htm>
- Trading Entities- <https://www.acuite.in/view-rating-criteria-6.htm>
- Financial Ratios And Adjustments- <https://www.acuite.in/view-rating-criteria-20.htm>

- Consolidation of entities- <https://www.acuite.in/view-rating-criteria-22.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.30	ACUITE BBB-/ Stable (Assigned)
Term Loan I	Not Applicable	Not Applicable	Not Applicable	1.10	ACUITE BBB- / Stable (Assigned)
Term Loan II	Not Applicable	Not Applicable	Not Applicable	6.89	ACUITE BBB- / Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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