Press Release

Lotus Poultries Private Limited

January 02, 2023

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.29	ACUITE BB | Stable | Downgraded	-
Total Outstanding Quantum (Rs. Cr)	12.29	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has downgraded the long-term rating on the Rs.12.29 crore bank facilities of Lotus Poultries Pvt. Ltd. (LPPL) from ACUITE BB+' (read as ACUITE double B plus) to **ACUITE BB (read as ACUITE double B)**. The outlook is **'Stable.'**

Rationale for Downgrade

The rating downgrade is on account of deterioration in operating and financial performance of the Group marked by significant decline in operating margins driven by increased input material costs and consequent deterioration in debt protection metrics. The Group has reported operating margins of (5.48) percent in Fy2022 as against 10.43 percent in FY2021. The margins are expected to remain stressed over the near term on account of inflated input costs. The financial risk profile of the Group moderated on account of the losses as well as net withdrawal of capital to the tune of Rs. 6.92 crore in FY22 by the partners. Going forward, the Group's ability to improve its profitability margins and maintain its capital structure will remain a key rating monitorable.

About Company

Hyderabad-based LPPL was incorporated in 2010 by Mr. Damodar Reddy, Mr. Srihari Reddy and Mrs. Surekha Marupuru. The company is engaged in the business of egg hatching and poultry broiler farming.

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

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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.

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.415.31 crore in FY2022 as against Rs.273.81 crore in FY2021

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

Weaknesses

Average Financial risk profile

Lotus group has an average financial risk profile marked by modest net worth, moderate gearing position and debt protection metrics. Net worth of the group, as on March 31, 2022, stood at Rs.47.24 crore compared to Rs.53.59 crore as on March 31, 2021. The decline in net worth is due to Rs.6.92 crore of net capital withdrawal from Lotus Farms.

Debt to equity ratio of the group remained range bound and stood at 1.86 times as on March 31, 2022 as against 1.85 times as on March 31, 2021. The debt, as on March 31, 2022 stood at Rs.87.67 crore, comprising long-term debt of Rs.27.24 crore, short-term debt of Rs.48.68 crore and unsecured loans from directors/related parties of Rs.11.76 crore. TOL/TNW stood at 3.52 times as on March 31, 2022 as against 2.74 times as on March 31,2021. Interest coverage ratio of the group declined to 2.29 times in FY22 from 3.32 times in FY21. DSCR stood at 1.14 times for FY22 as against 1.89 times for FY21.

Working Capital Intensive nature of operations

The group's working capital cycle contracted in FY22 marked by GCA days of 117 against 132 in FY21. This was mainly led by lower inventory days, which stood at 94 days for FY22 compared to 127days for FY21. Creditor days stood at 69 days in FY22 as against 84 days in FY21. Group receives credit in the range of 30-90 days. Debtor days stood at 10 in FY22 as against 8 days in FY21. Company extends credit in the range of 7-15 days. Average bank limit utilization during the 6 months through October 2022 was ~89.69-93.35 per cent.

Risk of capital withdrawal associated with partnership nature

Lotus Farms was established as a partnership firm in 1996. Till FY2021, Partners had a track record of infusing capital, however, in FY2022, the partners have withdrawn net capital of Rs 6.9 crore. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure of the Group.

Rating Sensitivities

- Improvement in profit margins while maintaining the scale of operations
- Deterioration in financial risk profile

Material Covenants

None

Liquidity Position

Stretched

Lotus Group has a stretched liquidity position marked modest net cash accruals against repayment obligations. It generated cash accruals of Rs.10.18 crore compared to debt repayment of Rs.7.9 crore in FY2022. Going ahead, cash accruals of the group are estimated in the range of ~Rs 8.14-9.78 crore during FY23 to FY24 against debt repayment of Rs.6.13-7.26 crore during the same period. Current ratio of the group stood average at 1.02 times as on March 31, 2022. The GCA days at 117 and unencumbered investments and cash and bank balance stood at Rs. 5.1Cr as on March 31, 2022. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of modest cash accrual against debt repayments over the medium term.

Outlook: Stable

Acuite 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 liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	415.31	273.81
PAT	Rs. Cr.	0.57	12.04
PAT Margin	(%)	0.14	4.40
Total Debt/Tangible Net Worth	Times	1.86	1.85
PBDIT/Interest	Times	2.29	3.32

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

CRISIL vide its press release dated January 29,2022 has mentioned Lotus Poultries Private Limited's rating as CRISIL B Issuer Not Cooperating.

Any Other Information

None

Applicable Criteria

- Application Of 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
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Trading Entitie: https://www.acuite.in/view-rating-criteria-61.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on **www.acuite.in**

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Oct 2021	Term Loan	Long Term	1.10	ACUITE BB+ | Stable (Reaffirmed)
	Term Loan	Long Term	6.89	ACUITE BB+ | Stable (Reaffirmed)
	Cash Credit	Long Term	4.30	ACUITE BB+ | Stable (Reaffirmed)
10 Sep 2020	Term Loan	Long Term	6.89	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
	Term Loan	Long Term	1.10	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
	Cash Credit	Long Term	4.30	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
21 Jun 2019	Cash Credit	Long Term	4.30	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	6.89	ACUITE BBB- | Stable (Assigned)
	Term Loan	Long Term	1.10	ACUITE BBB- | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.30	ACUITE BB | Stable | Downgraded
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	5.19	ACUITE BB | Stable | Downgraded
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.53	ACUITE BB | Stable | Downgraded
Indian Overseas Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.27	ACUITE BB | Stable | Downgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Pradeep Singh Senior Analyst-Rating Operations Tel: 022-49294065 pradeep.singh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.