

Press Release

RMP Farms

January 19, 2021

Rating Assigned



| | |
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| Total Bank Facilities Rated* | Rs. 28.00 Cr. |
| Long Term Rating | ACUITE BB/ Outlook: Stable (Assigned) |

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.28.00 crore bank facilities of RMP Farms (RMP). The outlook is '**Stable**'.

Palladam (Tamil Nadu) based RMP farms (RMP) was established in 1987, as a partnership concern by the partners Mr. R. P. Gnanasundravadivel, Mr. R. P. Gunasekar, Ms. R. P. Saroja, Mr. G. Bhuvaneshwari, Mr. V. Vishnubalaji and Mr. V. Hari Hara Sudhan. The firm is engaged in diversified operations such as commercial bird farming (both layer and broiler), operation of hatcheries and production of feed among others. It has a cumulative capacity to manage and place as much as 12 lac broiler chicks per month and cumulative poultry feed mill capacity of 6000 tons per annum for captive consumption.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of RMP to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

RMP farms was promoted by Mr. R. P. Gnanasundravadivel and Mr. R. P. Gunasekar along with his family members as partners in 1987. It has been in the poultry business for over three decades and it has established a brand name in Assam, West Bengal, Bihar and Tamil Nadu. The integrated operations of the firm provide competitive advantage being the main raw material required in poultry farm is feed, which accounts for the major cost and it is produced in-house ensures quality and availability leading to better operating margins. The operating income of RMP reported Rs.183.49 crore in FY2020 (provisional).

Acuité believes that promoter's established presence in the poultry industry will sustain and support the firm business profile over the medium term.

- **Diversified geographic presence and vertically integrated operations**

RMP has poultry farms in the southern, central and western regions of India. It has presence in over 5 Indian states Assam (40% on its total revenues), West Bengal (20%), Bihar (20%), Tamil Nadu (12%), and Jharkhand (4%) Uttar Pradesh (2%). Diversified integrated operations commercial bird farming (both layer and broiler), production of feed. The vertically integrated operations should continue to support the business risk profile.

Weaknesses

- **Above average financial risk profile**

RMP's financial risk profile is above average aided by a moderate networth, moderate gearing (debt-to-equity) and moderate debt protection metrics. RMP's net worth at Rs.18.15 Cr as on March 31, 2020 as against Rs.17.01 Cr in FY2019 due to accretion of reserves during the same period. Moderate net worth coupled with high debt levels shows the leveraged capital structure marked by high gearing (debt-to-equity) and high total outside liabilities to tangible networth (TOL/TNW) levels of 2.09 times and 4.53 times respectively, as on March 31 2020 vis-à-vis 1.55 and 3.55 times respectively, as on March 31 2019. Debt protection metrics were moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 1.67 times and 0.07 times, respectively, in FY2020 vis-à-vis 1.99 times and 0.10 times for FY2019. The firm has generated cash accruals of Rs.2.50 to 3.00 Cr during the last three years through 2019-20, while its maturing debt obligations were in the range of Rs.0.15-0.60 crore during the same period. The

cash accruals of the firm are estimated to remain around Rs.1.80-3.00 Cr during FY2021-23 while their repayment obligations are estimated to be around Rs.1.50-2.00 crore during the same period. Acuité believes that the financial risk profile of the firm is expected to remain same over the medium term on account of no significant capex plans over the medium term.

• Working capital intensive nature of operations

The RMP's working capital is moderately managed as reflected by Gross current assets (GCA) days at of 92-166 days over the past three fiscals ended through March 31, 2020. This is mainly on accounts of inventory holding period of 58-116 days over the past three fiscals ended March 31, 2020. The company has debtors' days of 24-45 days over the past three fiscals ended March 31, 2020. On the other hand, the company gets credit of around 64-108 days from its suppliers during past three fiscals ended through March 31, 2020. As a result, the reliance on working capital limits utilized is high around 99-100 percent during past six months ended through November 2020. Acuité expects the working capital management to remain working capital intensive over the medium term.

• Profitability vulnerable to movement in raw material prices

The profitability remains vulnerable to fluctuations in feed prices with maize/soya/rice bran and others are forming ~80% of raw material cost. The prices of the raw materials remain volatile on the back of fluctuation in domestic production due to dependence on agro-climatic condition, international prices, government regulations (minimum support price). However, the EBITDA margin margins are improving year on year due to integrated nature of operations and the EBIDTA margins is improved to between 2.90 to 3.59 percent over last three years through FY2020). Improvement from the current profit margins and achieving optimum sales volumes will be the key rating sensitivities, going forward.

• Exposure to cyclical in poultry industry

In the past, the Indian poultry industry has been periodically affected by record high feed prices and unfavourable broiler realisations. The highly volatile broiler realisations are a consequence of the seasonal nature of higher chick placements in the market from organised and unorganised players, leading to an oversupply and a sharp correction in realisations. Poultry industry in India is severely affected by the outbreak of bird flu or avian influenza on a consistent basis. Moreover, the perceived limitations in quarantining the outbreak of infections make the entire country susceptible to outbreak in any region. Hence, this division remains susceptible to such developments, as recently reflected by fall in broiler prices on speculation linking chicken as possible vector of the coronavirus disease, which resulted in a sharp decline in domestic demand during February-March-2020. This adversely impacted the average realisations for broiler chicken and demand in Q4FY2020. However, after the panic subsided and demand increased, broiler realisation started rising gradually from the beginning of the current fiscal. However, the broiler realisation again started moderating from the later part of June and various bio-security measures adopted by the group over the years, which mitigate the risk to some extent. Acuité believes that Bird flu and other diseases are critical risks in the poultry business, which can affect demand and cause prolonged impact on prices.

Liquidity Position: Adequate

The RMP has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations and moderate working capital management. The firm has generated cash accruals of Rs.2.50 to 3.00 Cr during the last three years through 2019-20, while its maturing debt obligations were in the range of Rs.0.15-0.60 crore during the same period. The cash accruals of the firm are estimated to remain around Rs.1.80-3.00 Cr during FY2021-23 while their repayment obligations are estimated to be around Rs.1.50-2.00 crore during the same period. The RMP's working capital is moderately managed as reflected by Gross Current Assets (GCA) days at of 92-166 days over the past three fiscals ended through March 31, 2020. Its working capital limits utilized is high 99-100 percent during past six months ended through November 2020. The current ratio stands low at 1.11 times during past 3 years ended as on 31 March 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals against its repayment obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Improvement of working capital cycle
- Any further large debt funded capital expenditure, impacting the financial risk profile adversely.

Material covenants

None

Outlook: Stable

Acuité believes that RMP will maintain a 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the firm registers higher than expected growth in its revenues while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or larger-than-expected debt-funded capex or significant withdrawal of capital leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY20 (Actual) | FY19 (Actual) |
|-------------------------------|---------|---------------|---------------|
| Operating Income | Rs. Cr. | 183.49 | 213.02 |
| PAT | Rs. Cr. | 0.97 | 1.52 |
| PAT Margin | (%) | 0.53 | 0.71 |
| Total Debt/Tangible Net Worth | Times | 2.09 | 1.55 |
| PBDIT/Interest | Times | 1.67 | 1.99 |

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

RMP has not cooperated with ICRA, which has classified the company as non-cooperative through a release dated January 14, 2020. The reason provided by ICRA Ratings is non-furnishing of information for monitoring of ratings.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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 (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 | 15.00 | ACUITE BB/Stable (Assigned) |
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 13.00 | ACUITE BB/Stable (Assigned) |

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About Acuité Ratings & Research:

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