

Press Release

KJL Poultries Private Limited

July 27, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 50.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long term rating of **'ACUITE BB' (read as ACUITE Double B)** on the Rs.50.00 Cr bank facilities of K.J.L. Poultries Private Limited (KJLPL). The outlook is **'Stable'**.

About the Company

Hyderabad Based, K.J.L. Poultries Private Limited (KJLPL) was incorporated in 2010 by Mr. Kalidindi Satyanarayana Raju, Dr. Kalidindi Srinivasa Raju along with other family members. KJLPL is engaged in diversified operations such as commercial bird farming, operation of hatcheries and production of feed among others. It has a cumulative capacity to manage and place as much as 2 lakh broiler chicks per month, 85,000 hatching eggs per day and cumulative poultry feed mill capacity of 10 tons per hour.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the KJLPL to arrive at this rating.

Key Rating Drivers

Strengths

• Promoters' extensive experience in the Indian poultry industry

Incorporated in 2010, KJLPL is a closely-held company promoted by Mr. Satyanarayana Raju who has more than three decades in the poultry business. Dr. Kalidindi Srinivasa Raju is the first generation entrepreneur who has been part of the day-to-day operations of the company. The extensive experience of the promoters along with experienced management has helped in maintaining long relationship with its customers which has resulted in rerepeated orders. The integrated operations of KJLPL provide competitive advantage being the main raw material required in a poultry farm is feed, which accounts for the major cost and it is produced in-house ensures quality and availability. The revenue mix is majorly from Sale of Commercial Broiler (35 percent), Sale of Chicks (25 percent), Sale of Hatching Eggs (20 percent), Sale of Feed (15 to 20 percent) to the total operating income of the company. KJLPL has its geographical reach in the states namely Telangana (75-80 percent), Andhra Pradesh (10-15 percent), and Maharashtra (5 percent). KJLPL's operating income grew by 39 percent to Rs. 116.50 Cr in FY2021 (Provisional) as against Rs. 83.84 Cr in FY2020. Acuite believes that promoter's established presence in the poultry industry and increasing demand in the Indian Poultry Industry will support KJLPL' business profile over the medium term.

• Above-average financial risk profile

KJLPL's financial risk profile is above-average aided by a moderate network, high gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) and moderate debt protection metrics. KJLPL's net worth stood at Rs.28.27 Cr as on March 31, 2021 (provisional) as against Rs.23.86 Cr in March 31, 2020. Its gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) stood at 2.04 times and 2.91 times, respectively, as on March 31 2021 (provisional) vis-à-vis 1.53 and 2.36 times respectively, as on March 31 2020. Debt protection metrics were moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.65 times and 0.13 times, respectively, in FY2021 vis-à-vis 1.79 times and 0.06 times for FY2020. KJLPL has generated cash accruals of Rs.3.34 to 7.32 Cr during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs.4-6 Cr during the same period. KJLPL has expected to generated cash accruals of Rs.7 to 11 Cr during the last three years through 2022-24, while its maturing debt obligations were in the range of Rs.4-10 Cr during the same period. Acuite believes that the financial risk profile of the firm is expected to remain above average over the medium term.

Weaknesses

• Working-capital-intensive nature of operations

The KJLPL's operations are working capital intensive reflected by its high Gross current assets (GCA) days at of 175-247 days over the past three fiscals ended through March 31, 2021 (provisional). This is mainly on accounts of inventory holding period of 132-213 days over the past three fiscals ended March 31, 2021 (provisional). The company has debtors' days of 33-47 days over the past three fiscals ended March 31, 2021 (provisional). On the other hand, the company gets credit of around 77-130 days from its suppliers during past three fiscals ended through March 31, 2021 (provisional). KJLPL's reliance on working capital limits is high reflected by its fully utilized bank line around 99 percent during past six months ended through May 2021. Acuite expects KJLPL's operations will remain working capital intensive over the medium term.

• Profitability vulnerable to movement in raw material prices and Exposure to cyclicity in the poultry industry

KJLPL's profitability remains vulnerable to fluctuations in feed prices with maize/soya forming ~65-70% 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). The EBITDA margin Margins have remained in range-bound between 9 to 11 percent over the last three years through FY2021 (provisional). 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 Covid-19, bird flu or avian influenza on a consistent basis. Further, the company faces intense competition from organized as well as unorganized players catering to regional demands. Acuite believes that the company's business performance is susceptible to intense competition and inherent risks in the poultry industry and Improvement from the current profit margins and achieving optimum sales volumes will be the key rating sensitivities, going forward.

Liquidity Position: Stretched

KJLPL's Liquidity is stretched with tightly matching NCAs to its repayment obligations and high working capital intensive nature of operations. KJLPL has generated cash accruals of Rs.3.34 to 7.32 Cr during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs.4-6 Cr during the same period. KJLPL has expected to generated cash accruals of Rs.7 to 11 Cr during the last three years through 2022-24, while its maturing debt obligations were in the range of Rs.5-11 Cr during the same period. The shortfall in FY2021 was met through sanction of Guaranteed Emergency Credit Line (GECL) of Rs.8.80 Cr. The average fund-based working capital utilization stood at 99 percent for the past 6 months ended May 2021. The firm has maintained very low unencumbered cash and bank balances Rs.0.01 Cr and the current ratio stood low at 0.90 times as on March 31, 2021. Acuite believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accrual as against its repayments.

Rating Sensitivities

- Significant improvement in scale of operations and improvement in Profitability
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.

Outlook: Stable

Acuite believes that KJLPL 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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	116.51	83.84
PAT	Rs. Cr.	4.40	0.57
PAT Margin	(%)	3.78	0.68
Total Debt/Tangible Net Worth	Times	2.04	2.25
PBDIT/Interest	Times	2.65	1.79

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
Term Loan-1	July-2010	8.55	March-2022	2.00	ACUITE BB/Stable (Assigned)
Term Loan-2	March-2012	8.55	March-2022	4.30	ACUITE BB/Stable (Assigned)
Working Capital Term Loan (FITL)	Not Applicable	Not Applicable	Not Applicable	1.32	ACUITE BB/Stable (Assigned)
Working Capital Term Loan (GECL)	Not Applicable	Not Applicable	Not Applicable	8.80	ACUITE BB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB/Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE BB/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.58	ACUITE BB/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in</p> <p>Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in</p>

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