Press Release

KJL Poultries Private Limited

August 02, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.00	ACUITE BB | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed its long term rating **'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'.**

The rating reaffirmation considers a significant turnover growth in FY2022 and consistent growth in the overall scale of the KJLPL at a CAGR of ~16.20% over the past four years ending FY22 (Prov.), supported by diverse product portfolio of live bird sales, poultry feeds, hatchable eggs, etc. The rating also favourably factors in the extensive experience of the promoters in the poultry industry and the established relationships of the KJLPL with its clients and local farmers. The ratings are however constrained by the declined operating margin from 11.66% to 7.90% due to volatility in the cost of production largely driven by the movements in prices of key raw material, primarily soya bean which are dependent on agro-climatic conditions, is also exposed to the inherent industry risk of disease outbreaks (bird flu) and working capital-intensive nature of operations.

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 2.5 lakh broiler chicks per month, 40,000 hatching eggs per day and cumulative poultry feed mill capacity of 20 tons per hour.

Analytical Approach

Acuité 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. Acuité 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.

Growing scale of operation and volatile profitability

The KJLPL's operating income witnessed a CAGR of around 16.22% between FY2018 and FY2022, in the recent years, the KJLPL had enhanced its capacities in feed manufacturing, hatchery and breeder farming and scaled up broiler farming integration in other states to expand its market footprint. The total income achieved by KJLPL's in FY22 (Provisional) grew at a healthy pace of ~49% to Rs. 173.91 Cr from Rs. 116.25 Cr in FY21 due to increased demand, diversified revenue streams and its integrated nature of operations. KJLPL's major revenue mix is majorly from Sale of Commercial Broiler (35 percent), Sale of Chicks (15 percent), Sale of Hatching Eggs (20 percent), and Sale of Feed (27 percent) to the total operating income of the company. KJLPL has its geographical reach in the states namely Telangana (80 percent), Andhra Pradesh (10 percent), and Maharashtra (5 percent) and rest from Chhattisgarh. The EBITDA and PAT margins, declined to 7.90% and 2.77 % respectively, in FY22 (provisional) against 11.66 % and 3.14% in FY21 due to volatility in the cost of production largely driven by the movements in prices of key raw material. Acuité believes that turnover growth due to scaling up of operations is likely to keep the profits and cash accruals moderate levels in FY2023.

Above-average financial risk profile

KJLPL's financial risk profile is above-average aided by a moderate networth, high gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) and moderate debt protection metrics. KJLPL's net worth stood at Rs.32.33 Cr as on March 31, 2022 (provisional) as against Rs.27.51 Cr in March 31, 2021. Its gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) stood at 2.04 times and 3.00 times, respectively, as on March 31 2022 (provisional) vis-à-vis 2.10 and 2.94 times respectively, as on March 31 2021. Debt protection metrics were moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD)of 3.02 times and 0.12 times, respectively, in FY2022 vis-à-vis 2.62 times and 0.11 times for FY2021. Acuité 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 153-247 days over the past three fiscals ended through March 31, 2022(provisional). This is mainly on accounts of inventory holding period of 115-213 days over the past three fiscals ended March 31, 2022(provisional). The company has debtors' days of 30-45 days over the past three fiscals ended March 31, 2022(provisional). On the other hand, the company gets credit of around 62-130 days from its suppliers during past three fiscals ended through March 31, 2022 (provisional). KJLPL's reliance on working capital limits is high reflected by its fully utilized bank line around 97 percent during past six months ended through June, 2022. Acuité expects KJLPL's operations will remain working capital intensive over the medium term.

Inherent risk in poultry business

The Group, like other entities in the poultry and related businesses, is exposed to the inherent industry risk of disease outbreaks (bird flu or avian influenza). However, Acuité believes that various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent. Further, the poultry industry is fragmented with intense competition leading to pressure on pricing and margins. As inherent in the industry, the broiler production cost and realisations vary considerably across geographies and are impacted by the seasonality as well as local supply dynamics. However, the movement in feed prices generally follows similar trends across geographies. Volatility in broiler realisations, due to the seasonal nature of demand of poultry products in India, has a bearing on the profitability of all integrators and keep the same volatile.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
- Any further deterioration in working capital management leading to deterioration in financials risk profile and liquidity

Material covenants

None

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 7.61 Cr during the last three years through 2020-22, while its maturing debt obligations were in the range of Rs.1.50 -5.50Cr during the same period. KJLPL has expected to generated cash accruals of Rs.8 to 11 Cr during the last three years through 2023-25, while its maturing debt obligations were in the range of Rs.4-5 Cr during the same period. The average fund-based working capital utilization stood at 97 percent for the past 6 months ended June, 2022. The firm has maintained very low unencumbered cash and bank balances Rs.0.31 Cr and the current ratio stood low at 1.25 times 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 medium cash accrual as against its repayments.

Outlook: Stable

Acuite believes that KJLPL will continue to benefit over the medium term due to its established player in the steel industry with an integrated nature of operations, established relations with its customers and suppliers. The outlook may be revised to "Positive", if the KJLPL demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while improving its capital structure through equity infusion. Conversely, the outlook may be revised to "Negative", if KJLPL generates lower-than-anticipated cash accruals most likely as a result of sharp decline in operating margins, or further stretch in its working capital cycle, or larger-than expected debt-funded capex.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	173.91	116.25
PAT	Rs. Cr.	4.81	3.65
PAT Margin	(%)	2.77	3.14
Total Debt/Tangible Net Worth	Times	2.04	2.10
PBDIT/Interest	Times	3.02	2.62

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

None

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
• Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jul 2021	Term Loan	Long Term	4.30	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	18.00	ACUITE BB | Stable (Assigned)
	Working Capital Term Loan	Long Term	8.80	ACUITE BB | Stable (Assigned)
	Working Capital Term Loan	Long Term	1.32	ACUITE BB | Stable (Assigned)
	Proposed Bank Facility	Long Term	0.58	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	2.00	ACUITE BB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE BB | Stable | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.80	ACUITE BB | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	4.40	ACUITE BB | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	8.80	ACUITE BB | Stable | Reaffirmed

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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.