

Press Release

Jamuna Poultry Farm

October 12, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 15.00 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.15.00 Cr bank facilities of Jamuna Poultry Farm (JPF). The outlook is '**Stable**'.

The ratings assigned favourably factor in the extensive experience of the promoters of Jamuna Group of over a decade in the poultry sector and also takes note of healthy revenue growth exhibited by Jamuna Group in FY2021 (provisional) and its diversified product portfolio which ensures revenue visibility through different business verticals. Albeit, the ratings are constrained by the Jamuna Group moderate scale of operations with fluctuating and modest profitability over the years. Jamuna Group operates in the highly fragmented poultry industry and exposed towards volatility in key raw material prices and sales realisations which could have an impact on profitability. It also remains inherently exposed towards disease outbreaks in the animal husbandry business. The rating also considers its stretched liquidity profile due to high working capital intensity (99 % bank limits utilisation) and high term loan repayment obligations over the medium term.

About the Company

Jamuna Poultry Farm is a proprietorship firm which was established in 2010 by Mrs. E. Jamuna. JPF is engaged in production of commercial eggs and the poultry unit is located in Shamirpet (Telangana) with an average production of commercial eggs is about 1.30 lakhs eggs per day.

About the Group Company

Hyderabad Based, Jamuna Hatcheries Private Limited (JHPL) was Incorporated 2018. JHPL is promoted by Mrs. Etela Jamuna Reddy and her son Mr. Etela Nithin Reddy. JHPL 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 1.50 lakh layer birds and 1.05 Lakh hatching eggs per day and poultry feed mill capacity of 20 tons per hour.

Analytical Approach

The team has consolidated the business and financial risk profiles of Jamuna Poultry Farm (JPF) and Jamuna Hatcheries Private Limited (JHPL) together referred to as the 'Jamuna Group' (JG). The consolidation is in view of the common management, strong operational & financial linkages between the entities. Extent of consolidation: Full

Key Rating Drivers

Strengths

- Promoters' extensive experience in the Indian poultry industry**

Jamuna Group (JG) was established in 2010, It is a closely-held group promoted by Mrs. Etela Jamuna Reddy who has more than two decades in the poultry business. Mr. Etela Nithin Reddy 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 Group 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. Jamuna Group's operating income grew consistently y-o-y to Rs. 118.27 Cr in FY2021 (Provisional) as against Rs. 32.38 Cr in FY2020. Due to continued capacity enhancement and established scale of operations. Acuite believes that promoter's established presence in the poultry industry and increasing demand in the Indian

Poultry Industry will support JG's business profile over the medium term.

• **Above-average financial risk profile**

Jamuna Group 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. Jamuna Group's net worth stood at Rs. 35.18 Cr as on March 31, 2021 (provisional) as against Rs. 21.33 Cr in March 31, 2020 due to accretion of reserves during the same period. Its gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) levels of 2.69 times and 3.14 times, respectively, as on March 31 2021 (provisional) vis-à-vis 2.43 and 3.00 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 1.57 times and 0.04 times, respectively, in FY2021 vis-à-vis 1.49 times and 0.04 times for FY2020. 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**

Jamuna Group's operations are working capital intensive reflected by its high Gross current assets (GCA) days at of 178-386 days over the past three fiscals ended through March 31, 2021 (provisional). This is mainly on accounts of inventory holding period of 53-286 days over the past three fiscals ended March 31, 2021 (provisional). The Jamuna Group has debtors' days of 17-52 days over the past three fiscals ended March 31, 2021 (provisional). On the other hand, the Jamuna Group gets credit of around 48-182 days from its suppliers during past three fiscals ended through March 31, 2021 (provisional). Jamuna Group's reliance on working capital limits is high reflected by its fully utilized bank line around 99 percent during past six months ended through July 2021. Acuite expects Jamuna Groups' operations will remain working capital intensive over the medium term.

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

Jamuna Group'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 15 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

Jamuna Group's Liquidity is stretched with tightly matching NCAs to its repayment obligations and high working capital intensive nature of operations. Jamuna Group has generated cash accruals of Rs.1.50 to 4.00Cr during the last three years through 2019-21, while its maturing debt obligations were in the range of Rs.1.50 Cr-4.00 Cr during the same period. Jamuna Group has generated cash accruals of Rs.5 to 8 Cr during the last three years through 2022-24, while its maturing debt obligations were in the range of Rs.5-7 Cr during the same period. The shortfall in FY2021 was met through sanction of Guaranteed Emergency Credit Line (GECL) of Rs.8.85 Cr. The average fund-based working capital utilization stood at 99 percent for the past 6 months ended May 2021. The Jamuna Group's has maintained unencumbered cash and bank balances Rs.0.72 Cr and the current ratio stood at 1.44 times as on March 31, 2021. Acuite believes that the liquidity of the group 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 Jamuna Group's 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.	118.27	32.38
PAT	Rs. Cr.	0.64	0.15
PAT Margin	(%)	0.54	0.48
Total Debt/Tangible Net Worth	Times	2.69	2.43
PBDIT/Interest	Times	1.57	1.49

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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Canara Bank	Working Capital Term Loan (GECL)	Not Applicable	Not Applicable	Not Applicable	1.40	ACUITE BB/Stable (Assigned)
Canara Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.90	ACUITE BB/Stable (Assigned)
Canara Bank	Working Capital Demand	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB/Stable (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.20	ACUITE BB/Stable (Assigned)

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