Press Release

Jamuna Poultry Farm

December 30, 2022

Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	15.00	ACUITE BB- | Stable | Downgraded	-
Total Outstanding Quantum (Rs. Cr)	15.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has downgraded its long-term rating to **'ACUITE BB-' (read as ACUITE Double B 'minus') from 'ACUITE BB' (read as ACUITE Double B)** on the Rs.15.00 Cr bank facilities of Jamuna poultry farm (JPF). The outlook is '**Stable**'.

Rationale for the rating

The rating downgrade is on account of deterioration in its liquidity profile in the form of tightly matching net cash accruals against its repayment obligations and high reliance on bank lines. Net cash accruals (NCAs) stood at Rs.5.56 Cr in FY2022 as against its maturing long term debt obligations in the range of Rs.5.34 Cr for the same period. Gross current asset (GCA) days stood at 297 days as on March 31, 2022 as against 220 days as on March 31, 2021.

The rating on jamuna group continues to factor in the extensive experience of the promoters of Jamuna Group of over a decade in the poultry sector and moderate financial risk profile. Albeit, the ratings are constrained by the Jamuna Group's working capital intensive operations, stretched liquidity, profitability vulnerable to movement in raw material prices and exposure to cyclicality in the poultry industry.

About 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

Hyderabad-based, Jamuna Hatcheries Private Limited (JHPL) was incorporated in 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 2.00 lakh layer birds and 1.05 Lakh hatching eggs per day and poultry feed mill capacity of 20 tons per hour.

Analytical Approach

Extent of Consolidation

• Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuité 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. For the assessment of financial risk profile of Jamuna group, the unsecured loans (USL) to the extent of Rs.46.51 Cr from the promoter group have been treated as quasi equity as it is expected to remain in the business over a medium term. The USL from related parties are non-interest bearing and subordinated to external borrowings.

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. 128.53 Cr in FY2022 as against Rs. 116.73 Cr in FY2021. Acuité 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.

Weaknesses

- **Improvement recorded in financial risk profile ; albeit remains below-average**

  The group has below-average financial risk profile, marked by moderate net worth, gearing and debt protection metrics. The net worth of the group stood at Rs.65.92 Cr and Rs.35.56 Cr as on March 31, 2022 and 2021, respectively. The net worth has gone up sharply in FY2022, as a result of additional of Rs. 28.91 Cr of fund infusion from promoters which is being treated as quasi equity. The gearing of the group has improved in FY2022. It stood at 1.72 times as on March 31, 2022 against 2.67 times as on March 31, 2021. The improvement is on account of increase in net worth. Debt protection metrics – Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood weak at 1.55 times and 1.01 times as on March 31, 2022 respectively as against 1.56 times and 0.99 times as on March 31, 2021 respectively. TOL/TNW stood at 2.04 times and 3.24 times as on March 31, 2022 and 2021 respectively. The deterioration in debt service coverage ratio (DSCR) in FY2021 is because of increase in interest cost. The debt to EBITDA of the company stood high at 7.12 times as on March 31, 2022 as against 8.61 times as on March 31, 2021. Acuité believes that the financial risk profile of the group is expected to remain moderate over the medium term.

- **Working capital intensive operations**

  The working capital management of the group remained high with high gross current asset (GCA) days at 297 days as on March 31, 2022 as against 220 days as on March 31, 2021. The gross current asset (GCA) days are majorly marked by high inventory days. Inventory days stood at 172 days as on March 31, 2022 as against 99 days as on March 31, 2021. Subsequently, the payable period stood at 77 days as on March 31, 2022 as against 65 days as on March 31, 2021 respectively.The debtor day stood at 32 days as on March 31, 2022 as against 21 days as on March 31, 2021. Further, the average consolidated bank limit utilization in the last twelve months ended october, 2022 remained at 98 percent for fund based. Acuité expects Jamuna Groups' operations will remain working capital intensive over the medium term.

- **Profitability vulnerable to movement in raw material prices and Exposure to cyclicality 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, gov ernment regulations (minimum support price). The EBITDA margin Margins have remained in range-bound between 9 to 15 percent over the last three years through FY2022. 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. Acuité 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.

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

Material Covenants

None

Liquidity Position: Stretched

The group liquidity is stretched marked by net cash accruals stood at Rs.5.56 Cr in FY2022 as against its maturing long term debt obligations of Rs.5.34 Cr for the same period. The current ratio stood at 2.20 times as on March 31, 2022. Unencumbered cash and bank balances stood at Rs. 0.49 Cr as on March 31, 2022. is expected to generate NCA of Rs.7.66-9.88 Cr in next two years against modest maturing debt obligations of Rs.6.75 -9.40 Cr over the medium term. The average fund-based working capital utilization stood at 99 percent for the past seven months ended October 2022. Acuité believes that the liquidity of the company will improve supported by increase in accruals in the medium term.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	128.53	116.73
PAT	Rs. Cr.	0.22	0.57
PAT Margin	(%)	0.17	0.49
Total Debt/Tangible Net Worth	Times	1.72	2.67
PBDIT/Interest	Times	1.55	1.56

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

None

Any Other Information

None

Applicable Criteria

• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.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
12 Oct 2021	Working Capital Term Loan	Long Term	1.40	ACUITE BB | Stable (Assigned)
	Working Capital Demand Loan	Long Term	1.50	ACUITE BB | Stable (Assigned)
	Proposed Bank Facility	Long Term	3.20	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	8.90	ACUITE BB | 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
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.90	ACUITE BB- | Stable | Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.20	ACUITE BB- | Stable | Downgraded
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	1.50	ACUITE BB- | Stable | Downgraded
Canara Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.40	ACUITE BB- | Stable | Downgraded

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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.