

Press Release

Prashanth Poultry Private Limited

March 04, 2022



Rating Assigned

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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B**' (**read as ACUITE B**) on the Rs.50.00 Cr. bank facilities of Prashanth Poultry Private Limited (PPPL). The outlook is '**Stable**'.

Reason for rating assigned

The rating assigned is on account of established and long track record of operations of the company with extensive experience of the promoters in the poultry industry and strong long term relationships with its customers. However, the rating is constrained by moderate financial risk profile, working capital intensive nature of operations and stretched liquidity position of the company.

About the Company

Prashanth Poultry Private Limited (PPPL) was incorporated in April 2005 promoted by Mr. V Bhaskar Rao (MD) and Mrs. V Sandhya (Director) and is based out of Hyderabad, Telangana. The company is engaged in Poultry farming particularly on production of table eggs. Its unit is spread across around 117 acres of its own land, located in Mahabubnagar, Telangana. The present rearing capacity of the units is 4,00,000 commercial birds.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record of operations with experienced management

PPPL is based out of Hyderabad which was incorporated in the year 2005 by Mr. V Bhaskar Rao (MD) and Mrs. V Sandhya (Director) reflecting an established track record of operations for more than a decade. The company is currently engaged into poultry farming particularly in production of table eggs. The company majorly caters in Andhra Pradesh and Telangana

region. The promoters has around three decades of experience in aforementioned. The operations of the company are managed by the promoters as well as well experienced senior management team who are ably supported by a strong line of mid-level managers. The extensive experience of the promoters has helped the company to established long and healthy relationships with its customers and suppliers over the years.

Acuité believes that the company will continue to benefit from its experienced management, long track of business operations and well established relationships with clients and suppliers over the medium term.

Modest scale of operations with moderate profitability

The revenue of the company stood at Rs.39.87 crore in FY21 registering a growth of ~8 percent YoY compared against Rs.36.58 crore in FY20 on account of resumption of economic activities after lockdown. Furthermore, the demand continued to remain healthy despite the onset of third covid-19 pandemic wave reflected by the sales registered by the company of Rs.36.79 crore in 9MFY22. The operating profit margin of the company however witnessed decline during FY21 which stood at 8.72 percent compared to 9.33 percent in FY20 on account of increase in raw material costs. The Profit after Tax (PAT) margin stood at 0.82 times in FY21 compared against 9.33 times in FY20.

Weaknesses

Moderate financial risk profile

The company has weak financial risk profile marked by low tangible net worth of Rs.4.65 crore as on 31 March, 2021 as against Rs.4.32 crore as on 31 March, 2020. The gearing level of the company remained high at 6.97 times as on 31 March, 2021 as against 6.99 times as on 31 March, 2020. The high gearing is majorly on account of low net worth followed and high total debt outstanding of the company. The total outstanding debt of Rs.32.40 crore consists of working capital borrowings of Rs.12.09 crore, long term borrowings of Rs.9.59 crore and unsecured loan from directors of Rs.10.72 crore as on 31 March, 2021. The adjusted gearing ratio also remained high at 4.67 times as on 31 March' 2021. The debt service coverage ratios also remain weak with Interest Coverage Ratio (ICR) of 1.68 times for FY21 and FY20. The Debt Service Coverage Ratio (DSCR) stood at 1.08 times for FY21 against 1.15 times for FY20. The debt to EBITDA stood high at 9.31 times as on March 31, 2021 against 8.85 times as on March 31, 2020.

Acuité believes that the financial risk profile of the company will continue to remain moderate on account of moderate profitability and no major debt funded capex over the medium term.

Working capital intensive operations

The operations of the company are working capital intensive in nature marked by high GCA days of 303 days for FY21 compared to 319 days for FY20. The high GCA days is majorly on account of high inventory levels which stood around 212 days for FY21 as against 242 days for FY20. Subsequently, the debtor's collection period also remained high at 102 days for FY21 compared against 90 days for FY20. Furthermore, the creditor days stood moderate at 58 days for FY21 as against 78 days for FY20. As a result, the reliance of working capital limits remained high reflected by average utilization of its working capital limits of around 97 percent in last six months ended Jan' 2022.

Acuité believes that the working capital management of the company will continue to remain a key rating sensitivity going ahead.

Rating Sensitivities

- Significant improvement in scale of operations and profitability margins
- Stretch in the working capital cycle leading to stretched liquidity position

Material covenants

None

Liquidity Position: Stretched

The company has stretched liquidity position marked by low net cash accruals against its maturing debt obligations. The company generated net cash accruals of Rs.1.27 crore in FY21 compared against maturing debt obligations of Rs.2.57 crore over the same period. The operations of the company are working capital intensive marked by high GCA days of 303 days for FY21. The same resulted in high reliance of working capital borrowing which is utilized high at ~97 percent on an average during last six months period ended Jan' 2022. Furthermore, the current ratio of the company stood moderate at 1.63 times as on March 31, 2021. Acuité believes that the liquidity of the company is likely to remain stretched over the medium term on account of low cash accruals compared against its matured debt obligations over the medium term.

Outlook: Stable

Acuité believes that PPPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case of better-than-expected revenue and profitability or efficient management of its working capital leads to better financial risk profile and liquidity. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected revenue or profitability, or any further stretch in its working capital management leading to deterioration in its financial risk profile and liquidity position.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	39.87	36.58
PAT	Rs. Cr.	0.33	0.19
PAT Margin	(%)	0.82	0.53
Total Debt/Tangible Net Worth	Times	6.97	6.99
PBDIT/Interest	Times	1.68	1.68

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

Not Applicable

Any other information

Not Applicable

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:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE B Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	18.30	ACUITE B Stable Assigned
Canara Bank	Not Applicable	Term Loan	01-08-2014	12.40	01-06-2023	7.00	ACUITE B Stable Assigned
Canara Bank	Not Applicable	Working Capital Demand Loan (WCDL)	01-04-2020	7.85	01-04-2022	1.20	ACUITE B Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	01-06-2020	7.50	01-06-2024	3.30	ACUITE B Stable Assigned
Canara Bank	Not Applicable	Working Capital Term Loan	01-11-2021	7.85	01-11-2026	2.20	ACUITE B Stable Assigned

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About Acuité Ratings & Research

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