

Infomerics Valuation And Rating Pvt. Ltd.

Bija Poultry Farming Private Limited

December 03, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Bank Facilities	45.04	IVR BB/Stable Outlook (IVR Double B with Stable Outlook)	Assigned
	Total	45.04		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Bija Poultry Farming Private Limited (BPFPL) derives comfort from its experienced promoters with long track record of operation, diversification initiatives taken by the company by venturing into apple trading and favourable demand prospects for poultry sector across India. However, the rating strengths are partially offset by its small scale of operations, exposure to agro climatic risk, highly fragmented and competitive nature of trading segment and poultry industry with outbreaks of bird flu and cyclical nature associated with Indian poultry industry. The ratings also factor in its elongated operating cycle and leveraged capital structure with moderate debt protection metrics

Key Rating Sensitivities:

Upward Rating Factors

- Sharp increase in scale of revenue on a sustained basis
- Diversified nature of business on a sustained basis
- Significant improvement in Capital structure

Downward Rating Factors

- Any deterioration in the overall gearing ratio to more than 3x
- Any moderation in cash accruals impacting the liquidity on a sustained basis

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

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Experienced promoters with long track record of operation

Being incorporated in 1988, the company has a long track record of operations of more than three decades. Further, the promoters, Gill family have vast experience in this industry resulting in established relationship with customers and suppliers. Further, the promoters have infused equity during the past two years to support the business indicating a positive commitment.

Diversification initiative

The revenue from the poultry farming segment almost remained stagnant over the past three years. In order to diversify its operations the company has ventured into trading of apples since FY18. Apple trading operations witnessed a steady y-o-y growth of ~78% in FY19 and contributes around 50% of total revenue of FY19.

Favourable demand prospects for poultry sector across India

Poultry products like eggs have large consumption across the country in the form of bakery products, cakes, biscuits and different types of food dishes in home and restaurants. The demand has been driven by the rapidly changing food habits of the average Indian consumer, dictated by the lifestyle changes in the urban and semi-urban regions of the country.

Key Rating Weaknesses

Small Scale of operations

Despite being in the business for more than three decades, the scale of operations has been small over the past years with a total operating income of Rs.40.86 crore in FY19. The small size restricts the financial flexibility of the entity in times of stress and deprives it from benefits of economies of scale. However, notwithstanding its small scale of operations the company has achieved a CAGR of ~32% during FY16-FY19 with a y-o-y growth of ~29% in FY19 mainly driven by revenue from trading operations. Further, during H1FY20 the company has achieved sales of Rs.25.63 crore.

Exposure to agro climatic risk and cyclicity associated with Indian poultry industry

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Maize and soya form the major raw materials for poultry feed, which account for a significant portion of its total purchases. Further, the company mainly deals in apples which is also an agro commodity. Agro commodities are highly exposed to agro climatic risks. Thus, fluctuation in the prices of these agro commodities would impact its profitability. Further, the company is also affected by the cyclicity associated with the Indian poultry industry and the resultant volatility in egg prices.

Highly fragmented and competitive nature of trading segment and poultry industry with outbreaks of bird flu

Poultry industry and apple trading segment both are highly competitive due to its low capital requirements and low entry barriers. Further, the intermittent outbreaks of bird flu have affected the poultry industry since 2006. Such contagious disease outbreaks will have a high impact on the industry thereby leading to crash in prices of table eggs.

Elongated operating cycle

The operating cycle of the company remained elongated over the past three years marked by its high inventory holding requirements. The company need to store poultry feeds for the poultry farming business. On the other hand, the company procure apples in harvesting season and store the same to sale it during off seasons to get a better price.

Leveraged capital structure with moderate debt protection metrics

The capital structure of the company remained leveraged as on the past three account closing dates. However, the overall gearing ratio though remained high witnessed a sharp improvement from 8.35x as on March 31, 2018 to 2.91x as on March 31, 2019. Further, though the interest coverage ratio remained satisfactory at 1.76x in FY19 the Total debt to GCA remained high at 14.89 years in FY19. However, total indebtedness of the company as reflected by TOL/TNW remained moderate at 3.20x as on March 31, 2019 (9.04x as on March 31,2018).

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Companies

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Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Stretched

BPFPL's liquidity is stretched marked by its tightly matched accruals vis-à-vis its repayment obligations. However, the company has already repaid Rs.1.95 crore of loan amounts for FY20 which imparts comfort. Further, the company has satisfactory buffer in its working capital lines as the cash credit limits remained satisfactory at ~45% during the past 12 months ended October, 2019.

About the Company

Bija Poultry Farming Private Limited incorporated in 1988 by one Gill family of Punjab. It was initially engaged in poultry farming business with its two poultry farming units, located at Mohali, Punjab with laying birds of around 90,000 and Rudarpur, Uttarakhand with laying birds of around 2,00,000. In order to diversify its business, the company has forayed into trading of apples from FY18 with a cold storage facility capacity of 5300 MT per annum for storing of apples in Himachal Pradesh. The day to day affairs of the company are looked after by Mr. Amrinder Singh Gill, Director.

Financials (Standalone):

	(Rs. crore)	
For the year ended* As on	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	31.61	40.86
EBITDA	3.82	5.05
PAT	0.16	0.42
Total Debt	36.57	35.73
Tangible Net worth	4.38	12.29
EBITDA Margin (%)	12.08	12.36
PAT Margin (%)	0.50	1.02
Overall Gearing Ratio (x)	8.35	2.91

*classification as per Infomerics standard

Status of non-cooperation with previous CRA: Nil

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit	Long Term	24.30	IVR BB/Stable	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	20.74	IVR BB/Stable	-	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.



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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	24.30	IVR BB/Stable
Long Term Fund Based Limits – Term Loan	-	-	March,2025	20.74	IVR BB/Stable