

**Press Release**

**Royal Agro Farm**

**March 13, 2020**

**Ratings**

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings Assigned
1.	Bank Facilities– Long Term	17.04*	IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)
2.	Proposed Bank Facilities – Long Term	27.36	IVR BBB-/Stable Outlook (IVR Triple B minus with Stable Outlook)
	<b>Total</b>	<b>44.40</b>	

*\*includes sub-limit as FLC of Rs.2.83 crore for import of machinery*

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The rating assigned to the bank facilities of Royal Agro Farm (RAF) derives comfort from its experienced partners and management, satisfactory financial risk profile and growth in scale of operations in 9MFY20. The rating also positively factor in favourable demand prospects for poultry sector across India. The rating strengths, however, are tempered by its nascent stage of operation, vulnerability of profits to raw material price movements, presence in highly fragmented and competitive poultry industry with exposure to possible outbreaks of disease. Further, the rating also considers its high working capital utilization and partnership nature of constitution.

**Key Rating Sensitivities**

**Upward Rating Factors**

- Significant growth in scale of operations with improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity on a sustained basis
- Improvement in the operating cycle and its working capital utilisation to remain below 90% on a sustained basis

**Downward Rating Factors**

- Dip in operating income and/or profitability impacting the debt coverage indicators, moderation in overall gearing to more than 1.5 times
- Elongation in the operating cycle adversely affecting the liquidity position

- Outbreaks of diseases impacting the poultry sector and thereby the business risk profile of the firm

## Detailed Description of Key Rating Drivers

### Key Rating Strengths

#### Experienced partners and management

The partners, Mr. M. S. Sunther and Mrs. Sivagami Sunther have diversified experience in many different industries including in Poultry industry through their association with Royal Agro Fresh LLP, which is engaged in the business of poultry meat. Also, the management of the firm consists of well qualified industry professionals.

#### Satisfactory financial risk profile

RAF has a moderate financial risk profile marked by a comfortable net worth of Rs.44.48 crore as on March 31, 2019 leading to a satisfactory capital structure as reflected by overall gearing and TOL/TNW at 0.38x and 0.52x respectively as on March 31, 2019. In addition, RAF has a strong debt protection metrics marked by interest coverage of 3.49x and Total Debt/GCA of 11.33x respectively in FY19. Further, the overall gearing and TOL/TNW continued to remain comfortable at 0.25x and 0.47x respectively as on December 31, 2019. Moreover, the interest coverage ratio improved further and remained healthy at 4.79x in 9MFY20.

#### Growth in scale of operation in 9MFY20

The firm achieved a total operating income of Rs.11.47 crore with a healthy EBITDA margin of 17.53% and gross cash accrual of Rs.1.49 crore in FY19. Further, in 9MFY20 the firm has achieved a PBT of Rs.3.40 crore on total operating income of Rs.177.43 crore.

#### Favourable demand prospects for poultry sector across India

The domestic poultry sector has seen strong growth in the last three years with the growth trend likely to continue in the medium-term on the back of favourable socio-economic and demographic factors. Moreover, supply side factors like increased contract farming across the country and sizeable investments by poultry integrators in increasing breeding/ hatching capacity are expected to contribute to the growth momentum. However currently, the prices of eggs are witnessing an upward trend, which will help the companies to get benefited from various operational efficiencies and prevailing business dynamics.

## **Key Rating Weaknesses**

### **Nascent stage of operation**

The firm started its commercial operations in November 01, 2018; hence it is in its nascent stage of operations. However, extensive knowledge of the partners with highly competent staff members is expected to support the business risk profile of the firm in the long run.

### **Vulnerability of profits to raw material price movements**

With raw material (Feed, Chick and Vaccines) costs accounting for ~87% of the overall cost in FY19 and with limited control over selling prices of broiler, eggs & cull birds, RAF's profitability is vulnerable to the volatility in raw material (key ingredients - maize and soybean) prices. As the poultry industry is virtually a buyers' market, any sharp increase in raw material prices may not be fully passed on to the consumers as the eggs & cull birds prices are controlled by its own demand-supply dynamics.

### **High working capital utilization**

The firm's average utilisation of its working capital limits during last twelve months ended January, 2020 was high at about ~92%. As the firm's total operating income is increasing so is the requirement for the working capital limits, hence, the firm has proposed an increase in its Cash Credit limit from the bank based on its inventory and book-debts.

### **Highly fragmented and competitive poultry industry with outbreaks of bird flu**

Poultry eggs and meats are food articles of regular consumption and stable demand. This feature of poultry farm business attracts many unorganised players. Going further, low entry barriers in these highly competitive segments would lead to oversupply situation which in turn may affect the profitability of the firm. 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. However the firm has taken appropriated measures for protecting its birds from bird flu by multiple level bio-security measures.

### **Partnership nature of constitution**

Given RAF's constitution as a partnership firm, it remains exposed to discrete risks, including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon the death, retirement or insolvency of partners.

## Analytical Approach: Standalone

### Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

### Liquidity: Adequate

RAF's liquidity profile seems satisfactory in the short to medium term marked by its expected sufficient cushion in accruals vis-à-vis repayment obligations. Further, till 9MFY20 the firm has achieved cash accruals of Rs.5.09 crore as against its debt obligation of Rs.0.95 crore in FY20 which imparts comfort. However, its bank limits are highly utilized to the extent of ~92% in the past 12 months ended January 2020 indicating a low liquidity buffer. The firm has sought enhancement in bank lines, supported by its above unity current ratio at 2.82x as on March 31, 2019. Enhancement in its bank limits is crucial for RAF's liquidity position.

### About the Firm

Royal Agro Farms (RAF) was established in May, 2017 as a partnership firm by partners and first generation entrepreneurs Mr. M. S. Sunther and Mrs. Sivagami Sunther. Both the partners are involved in diversified businesses like Solar Projects, vehicle dealerships, logistics and food processing through their other entities. RAF is engaged in poultry business. It has its registered office based in Kilpauk district of Chennai. The firm majorly is selling its products (Broiler, Chick, Cull Birds, Hatching Eggs, etc.) in Tamil Nadu and Andhra Pradesh. Currently, the firm has tie-ups with around 600-700 farms and has about 18 branches of its own divided into 3 zones in Tamil Nadu, Chittor and Anakel.

### Financials:

	(Rs. crore)	
For the year ended* / As On	31-03-2019 (Audited)	9MFY20 (CA-Certified)
Total Operating Income	11.47	177.43
EBITDA	2.01	6.43
PAT	0.53	3.40
Total Debt	16.85	17.16
Tangible Net worth	44.48	68.37
EBITDA Margin (%)	17.53	3.62
PAT Margin (%)	4.57	1.92
Overall Gearing Ratio (x)	0.38	0.25

\*as per Infomerics standards

**Status of non-cooperation with previous CRA: NA**

**Any other information: NA**

**Rating History for last three years: Not applicable**

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.	Cash Credit	Long Term	30.00	IVR BBB- /Stable	-	-	-
2.	Term Loan	Long Term	14.40	IVR BBB- /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](http://www.infomerics.com).

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**About Infomerics:**

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**Annexure 1: Details of Facilities**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Long Term Bank Facilities– Cash Credit	NA	NA	NA	30.00	IVR BBB-/ Stable Outlook
Long Term Bank Facilities– Term Loan	NA	NA	June, 2027	14.40	IVR BBB-/ Stable Outlook