Press Release

Kasturi Poultry Farms

January 03, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	64.52	IVR BB+ / Stable Outlook and Withdrawn [IVR Double B Plus with Stable Outlook] and withdrawn	Reaffirmed and withdrawn	Simple
Long Term / Short Term Bank Facilities (Proposed)	8.44	Withdrawn	Withdrawn	Simple
Total	**72.96 (Rupees Seventy-Two Crore and Ninety Six Lakhs Only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics Valuation and Rating Private Limited has reaffirmed the ratings assigned to the bank facilities of Kasturi Poultry Farms (KPF) at 'IVR BB+/ Stable / IVR A4+' and simultaneously withdrawn the ratings with immediate effect. The above action has been taken at the request of KPF and 'No Objection Certificate' received from the bank who has extended the facilities, and which is rated by Infomerics. Infomerics has also withdrawn the ratings assigned to the proposed bank facilities of KPF with immediate effect at the request of the company as it has not availed the aforesaid bank facilities.

The rating is withdrawn in accordance with Infomerics' Policy on Withdrawal of ratings. The reaffirmation in the rating assigned to the bank facilities of Kasturi Poultry Farms (KPF) derived strength from long track record of operations with extensive experience of the partners in the poultry sector, locational advantage, favourable demand outlook of Indian poultry industry, improving yet modest scale of operation. The ratings however constrained by relatively leverage capital structure and moderate debt coverage indicators, impact of fluctuations in raw material prices on profitability, highly fragmented industry and operations of the firm are exposed to the cyclicality associated with the poultry sector, margin susceptible to volatility in broiler realisations due to seasonal nature of demand of poultry products in India and partnership nature of its constitution.

Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth while maintaining operating margin above 6% on sustained basis
- Improvement in gearing and debt coverage metrics on a sustained basis

Downward Factors

- Increase in working capital requirement, larger-than-expected, debt-funded capex weakening the financial risk profile, particularly liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Long track record of operations with extensive experience of the partners in the poultry sector**

  Mr Parthasarathy and Mr Pradeep Kumar are the partners of the firm having more than two decades of experience in the poultry industry. The extensive experience of the partners which have seen various up and down business cycles is expected to help the firm in supporting its business profile. Further due to long term presence in the market, the partners have good relations with suppliers and customers.

- **Locational advantage**

  KPF is located in Tamil Nadu, which is leading the states in broiler production. More than 90% of the poultry products exported from India originates from the Tamil Nadu state. Tamil Nadu ranks second in the country's egg production with a production of 10.8 billion eggs. Tamil Nadu accounts for 17.71 per cent of the poultry population of the country. The input feed required for the birds is procured from Karnataka, Andhra Pradesh and local traders in Tirupur. The proximity to its market centres and suppliers helps KPF to reduce its transportation costs thus improving its profit margins.

- **Favourable demand outlook of Indian poultry industry**

  Favourable demand outlook of Indian poultry industry 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 restaurants and home. 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. The demands for poultry products are sustainable and accordingly, the kind of industry is relatively insulated from the economic cycle.

- **Improving yet modest scale of operation**

  The total operating income of the firm has seen a significant growth over the last four years. The total operating income of KPF has grown at Compounded Annual Growth Rate (CAGR) of 143.32% during the past four years ended in FY22, further on year-on-year basis increase by 107% and stood at Rs.399.20 crore in FY22 (vis-à-vis Rs.192.78 crore in FY21) mainly on account of increased in installed capacity of Commercial (Boiler) birds during FY22, which resulted in higher generation of revenue from boiler birds segment from Rs.80.56 crore in FY21 to Rs.244.24 crore in FY22. However, the scale of operation continues to remain modest marked by moderate cash accruals and tangible networth base of Rs.6.82 crore and Rs.10.39 crore respectively as on March 31, 2022, which limits the company's financial flexibility in time of stress and deprives it of scale benefits.

Key Rating Weaknesses

- **Leverage capital structure and moderate debt coverage indicators**

  The capital structure of the entity remained leverage owing to higher dependence on external borrowings coupled with moderate networth base. Further overall gearing has deteriorated and stood at 7.42 times as on March 31, 2022 (vis-à-vis 4.57 times as on March 31, 2021) mainly on account of availment of term loan facility for setting up new hatchery unit in Dharampuram, Tamil Nadu coupled with higher utilization of its working capital limits as on balance sheet date. Owing to this TOL/TNW has also deteriorated and stood at 9.80 times as on March 31, 2022 (as against 6.76 times as on March 31, 2021). The debt protection metrics of the entity marked by interest coverage has marginally improved and stood at 2.53 times in FY22 (vis-à-vis 2.38 times in FY21) mainly due to improvement in operating profit. However, total debt to gross cash accruals has deteriorated and stood at 11.32 times in FY22 (vis-à-vis 9.51 times in FY21) owing to increase in debt level.

- **Impact of fluctuations in raw material prices on profitability**

  The profit margins of the firm stand exposed to fluctuations in prices of maize and soya which are the key raw materials. The raw material consumption accounts for around 80% of the total operating expenses. Also, prices of maize and soya are in turn dependent on agro-climatic conditions, international prices, Government regulations and demand from the poultry sector. The firm thereby has limited ability to pass on the any price fluctuations in the key raw material prices to its customers. Hence any adverse movement in the raw material prices could impact the profitability margins of the firm.

- **Highly fragmented industry and operations of the firm are exposed to the cyclicality associated with the poultry sector**

  The firm operates in the highly fragmented poultry industry, characterised by the presence of many small and medium-sized organized and unorganized players. The presence of large number of players instils competition and limits the bargaining power as well as pricing flexibility of the firm, thereby exerting pressure on margins to an extent. Also, the firm is exposed towards the cyclicality associated with the poultry sector. Any slowdown in the industry or disease outbreaks could therefore impact the revenues as well as profitability of the firm.

- **Margin susceptible to volatility in broiler realisations due to seasonal nature of demand of poultry products in India**

  As inherent in the industry, the broiler production cost and realisation vary considerably across geographies and is impacted by seasonality as well as local supply dynamics. However, the movement in feed prices generally follow similar trends across geographies.

Volatility in broiler realisations, due to the seasonal nature of demand of poultry products in India, has a bearing on the profitability of all integrators and keep the same volatile.

- **Partnership nature of its constitution**

  Being a partnership firm, KPF has limited ability to raise capital as it has restricted access to external borrowings where personal networth and credit worthiness of partners affect decisions of prospective lenders. Further, it is susceptible to risks of withdrawal of partners' capital at time of personal peril and lack of succession decisions may raise the risk of dissolution of the entity.

Analytical Approach: Standalone

Applicable Criteria:

Policy on Withdrawal of ratings
Criteria for assigning rating outlook
Rating Methodology for Manufacturing Companies
Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The liquidity position of the concern remained adequate marked by sufficient cash accruals vis-à-vis repayment obligations. Further, the current ratio and quick ratio stood at 1.40 times and 0.31 times as on March 31, 2022. The debt protection metrics of the entity are average as reflected in the interest coverage ratio of 2.53 times and Debt Service Coverage Ratio of 1.95 times in FY22. Thus, the overall liquidity position of the company remained **Adequate**.

About the Company

Kasturi Poultry Farms (KPF) was established by Mr Parthasarathy and his son Mr Pradeep Kumar in 1998. The firm is engaged in raising of poultry, production of eggs, selling day old chicks, manufacturing poultry feed, manure sales, contract feed grinding, contract breeding and bird culling. They have 15 offices located at different cities of Tamil Nadu and 2 offices located in Kerala.

Financials (Standalone)*:

(Rs. Crore)

For the year ended / As on	31-Mar-2021 (Audited)	31-Mar-2022 (Audited)
Total Operating Income	192.78	399.20
EBITDA	7.08	11.14
PAT	1.01	2.18
Total Debt	39.32	77.13
Tangible Net worth	8.61	10.39
EBITDA Margin (%)	3.67	2.79
PAT Margin (%)	0.52	0.55
Overall Gearing Ratio (times)	4.57	7.42

**Classification as per Infomerics standards*

Status of non-cooperation with previous CRA: Brickworks Ratings India Private Limited in its press release dated July 14, 2022 has placed the rating of Kasturi Poultry Farms under Issuer Not Cooperating category due to non-availability of information.

Any other information: None

Rating History for last three years:

		Current Ratings (Year 2022-23)			Rating History for the past 3 years		
Sr. No.	**Name of Instrument / Facilities**	**Type**	**Amount outstanding (Rs. Crore)**	**Rating**	**Date(s) & Rating(s) assigned in 2022-23**	**Date(s) & Rating(s) assigned in 2021-22**	**Date(s) & Rating(s) assigned in 2020-21**
Press Release					**01-Nov-2022**	–	–
1.	Fund Based – Term Loans	Long Term	39.52	IVR BB+ / Stable and Withdrawn	IVR BB+ / Stable	–	–
2.	Fund Based – Cash Credit	Long Term	25.00	IVR BB+ / Stable and Withdrawn	IVR BB+ / Stable	–	–
3.	Fund Based / Non-Fund Based – Proposed	Long Term / Short Term	8.44	Withdrawn	IVR BB+ / Stable / IVR A4+	–	–

Name and Contact Details of the Rating Analyst:

Name: Mr. Rupesh Dhuri Tel: (022) 62396023 Email: rupesh.dhuri@infomerics.com	Name: Mr. Prakash Kabra Tel: (022) 62396023 Email: prakash.kabra@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

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 – Fund Based – Rupee Term Loans	–	–	December, 2028	39.52	IVR BB+ / Stable and Withdrawn
Long Term – Fund Based – Cash Credit	–	–	–	25.00	IVR BB+ / Stable and Withdrawn
Long Term – Fund Based / Non-Fund Based – Proposed	–	–	–	8.44	Withdrawn

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details: Not Applicable

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.