Ku-Koo-Ch-Ku Poultry Farm Private Limited

September 26, 2024

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	21.34	IVR B/Stable (IVR Single B with Stable Outlook)	IVR B-/Stable (IVR Single B Minus with Stable Outlook)	Upgraded	Simple
	Total	**21.34**	**Rupees Twenty One Crore and Thirty Four Lakhs Only**			

Details of Facilities are in Annexure 1

Facility wise lender details are at Annexure 2

Detailed explanation of covenants is at Annexure 3

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has upgraded the long term rating of IVR B with Stable outlook for the bank loan facilities of Ku-Koo-Ch-Koo Poultry Farm Private Limited (KKCKPFPL).

The rating continues to draw comfort from its extensive industry experience of the promoters, improvement in profitability margins, favourable demand outlook of Indian poultry industry. However, these rating strengths are partially offset by leveraged financial risk profile, impact of fluctuations in raw material prices on profitability, highly fragmented industry and operations of the company are exposed to the cyclicality associated with the poultry sector.

The 'Stable' outlook is expected that the company will continue to derive strength from its experienced directors and established long track record.

IVR has principally relied on the audited financial results of KKCKPFPL's up to 31 March 2023, FY2024 (refers to period from 1st April 2023 to 31st March 2024) unaudited management certified provisional results and projected financials for FY25, FY26 and FY27, and publicly available information/ clarifications provided by the firm's management.

Upward factors

- Substantial revenue growth above Rs.130.00 crore while maintaining operating margin on sustained basis.
- Improvement in gearing and debt coverage metrics on 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

- **Extensive industry experience of the promoters:**
  The promoters have experience of around 2 decades in the poultry industry. This has given them an understanding of the dynamics of the market and enabled them to establish relationships with suppliers and customers.

- **Improvement in profitability margins:**
  The company's total operating income has marginally declined from Rs. 102.80 crore in FY2023 to Rs.100.92 crore in FY2024 (Provisional) due to a reduction in domestic market demand for its products. Despite this decline in total operating income, the company's profitability has improved significantly. The EBDITA margin has improved from 7.23% in FY2023 to 8.87% in FY2024 (Provisional), driven by lower production costs and a transition from reliance on external raw materials to in-house production for broiler birds. Similarly, the PAT margin has increased from 1.33% in FY2023 to 5.74% in FY2024 (Provisional), due to a reduction in overall expenses, including interest and other non-operating costs.

- **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.

Key Rating Weaknesses

- **Leveraged financial risk profile:**
  The company's capital structure remains highly leveraged due to its dependency on external borrowings and a relatively low net worth base. The overall gearing ratio has improved from -5.03 times in FY2023 to 12.05 times in FY2024 (Provisional), reflecting a shift from negative to positive. Despite this improvement, the entity continues to exhibit high leverage due to its low tangible net worth. TOL/TNW ratio, improved from -8.00 times in FY2023 to 21.17 times in FY2024 (Provisional), remains leveraged. The

company's debt protection metrics have shown marginal improvement. The interest coverage ratio increased to 2.85 times in FY2024 (Provisional) from 2.17 times in FY2023, and the debt service coverage ratio improved to 1.07 times in FY2024 (Provisional) from 1.01 times in FY2023. This improvement is due to a reduction in interest payments on term loans.

- **Impact of fluctuations in raw material prices on profitability:**
  The profit margins of the company stand exposed to fluctuations in prices of maize and soya, which are the key raw materials. The raw material consumption accounts for around 72% of the total operating expenses. Also, prices of maize and soya are in turn dependent on agroclimatic conditions, international prices, Government regulations and demand from the poultry sector. The company 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 company are exposed to the cyclicality associated with the poultry sector:**
  The company operates in the highly fragmented poultry industry, characterized by the presence of many small and medium-sized organized and unorganized players. The presence of a 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 company 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 company.

Analytical Approach: For arriving at the ratings, IVR has analysed KKCKPFPL's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Manufacturing Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

KKCKPDPL's liquidity position is adequate marked by gross cash accruals of Rs.5.92 crore in FY2024 (Provisional) as against Rs.5.33 crore of repayment obligation. The company has a current ratio of 1.01x as of March 31, 2024 (Provisional). Moreover, the company is expected to generate cash accruals in the range of Rs.6.70 crore to Rs.7.19 crore as against its repayment debt obligation in the range of Rs.3.55 crore to Rs.3.69 crore during FY2025-27.

About the Company

M/s Ku-Koo-Ch-Ku Poultry Farm is one of the leading "Contract Broiler Farming Company" in Maharashtra. It is a fully integrated firm with operations of Breeder Farming, Hatchery, Feed Mill, Quality Control Laboratory, Contract Broiler Farming, poultry processing plant and Marketing live birds and fresh chilled chicken incorporated in 1987 as a small-scale open broiler farm at Mapgaon near Alibag, Raigad. The company is continuously evolving, growing, and expanding the areas of operation. In April 1987, brothers Mr Prashant and Mr Dilip, decided to start a broiler farm with a minimal capital of Rs 4,000 and 400 chicks.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	102.80	100.92
EBITDA	7.43	8.95
PAT	1.37	5.80
Total Debt	35.59	28.02
Tangible Net worth	-7.07	2.33
EBITDA Margin (%)	7.23	8.87
PAT Margin (%)	1.33	5.74
Overall Gearing Ratio (x)	-5.03	12.05
Interest Coverage Ratio (x)	2.17	2.85

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CRISIL vide press release dated May 2, 2024, has continued to classify the case under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (September 18, 2023)	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
1.	Fund Based	Long Term	21.34	IVR B/Stable	IVR B-/Stable	-	-

Name and Contact Details of the Rating Analyst:

Name: Om Prakash Jain
Tel: (011) 45579024
Email: opjain@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

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

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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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
Term Loan	-	-	July 2027	2.70	IVR B/Stable
Term Loan	-	-	July 2026	0.25	IVR B/Stable
WCTL	-	-	March 2025	6.50	IVR B/Stable
ECGECL	-	-	September 2024	1.89	IVR B/Stable
Cash credit	-	-	-	10.00	IVR B/Stable

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/len-KuKoo-sep24.pdf

Annexure 3: Detailed explanation of covenants of the rated securities/facilities: Not Applicable
Annexure 4: List of companies considered for consolidated/Combined analysis: 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 Complexity Level of Rated Instruments/Facilities.