



Press Release

Royal Agro Farm Private Limited (erstwhile Royal Agro Farm)

July 28, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	55.00	IVR BB+/Stable (Pronounced as IVR Double B Plus with Stable Outlook)	Reaffirmed and removed from Issuer Non-Cooperation
Total	55.00 (INR Fifty-Five Crores Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating to the sanctioned and proposed bank facilities of Royal Agro Farm Pvt Ltd (RAFPL) continues to derive comfort from the adequate presence in the states of Tamil Nadu and Andhra Pradesh, as also its adequate capital structure and coverage indicators. However, the rating remains constrained by limited track record of operations coupled with sales dip in FY2021 impacted majorly by the pandemic, the low operating profitability and moderate operating cycle. Further, the profitability also remains vulnerable to movement in raw material prices, and exposure to intense competition and inherent risk of disease outbreak in the poultry industry. Infomerics also removed the ratings from the Issuer Non-Cooperation as the company has provided sufficient information to conduct the surveillance exercise.

Key Rating Sensitivities:

Upward Factors

- Improvement in profitability with substantial increase in scale.
- Improvement in liquidity buffer in the form of either cash balance and fixed deposit or cushion in bank lines.

Downward Factors

- Substantial decline in revenue and/or operating margin, leading to lower-than-expected cash accrual in fiscal 2021.
- Higher than anticipated debt avilment pressurizing capital structure and coverage metrics.



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Adequate regional presence in the states of Tamil Nadu and Andhra Pradesh

RAFPL has an adequate regional presence covering the states of TN and AP through a network of close to 600-700 farms ensuring adequate supply of birds as well distribution thereafter to the retail network. The promoters through a group company have also ventured in retail store sales with its brand Royal Chicken in Chennai.

Adequate capital structure and coverage indicators

The adjusted tangible net worth (considering unsecured loans as quasi equity) remained adequate at Rs. 64.38 crore in FY2021, Thus the capital structure has remained adequate at 0.42 times as on March 31,2021 with total outside liabilities to adjusted tangible net worth ratio of 0.47 times as on March 31, 2021. The moderate debt levels have also resulted in satisfactory coverage indicators with interest coverage at 2.33 times as on March 31,2021 as compared to 2.58 times as on March 31,2020. However, TD/GCA remained at 8.61 years on March 31, 2021 as compared to 7.19 years in the previous years

Key Rating Weaknesses

Limited track record of operations, Sales dip in FY2021 majorly on impact of pandemic

For RAFPL, FY2020 remains first full-fledged year of operations. The revenues remained subdued in fiscal 2021 mainly given the impact of supply chain disruptions particularly in H1FY2021 marked by lockdowns with some recovery in H2FY2021. The revenues overall declined steeply to Rs. 141.19 crore in FY2021 from Rs. 214.76 crore in FY2020. The company in Q1FY2022 has reported revenues of Rs. 15.00 crore. The extent of recovery of revenues in the current fiscal while improving profitability will be a key monitorable.

Low operating profitability and moderate operating cycle

The operating profitability of the company inherent to the broiler business overall remained low though it improved to 3.55% in FY 2021 (provisional) as compared with 2.08% in FY2020. Moreover, to maintain the sales momentum especially in H2FY2021, the company extended the credit period to its customers to 45-60 days



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due to which the operating cycle stood at 97 days as per the provisional FY 2021 against 46 days in FY 2020. This has increased some pressure on the debt metrics in FY2021 as against the previous years through availment of additional working capital borrowings, overall though the adjusted gearing still stood comfortable.

Profitability vulnerable to movement in raw material prices, which, in turn, is dependent on agro-climatic conditions, international prices and Government regulations

The major raw materials required for poultry feed are maize and soya de-oiled cake (DOC). The feed costs remain volatile on the back of fluctuation in domestic production due to dependence on agroclimatic condition, international prices, government regulations and demand from the animal husbandry sector. Given the mismatch in the poultry realizations and the feed costs, the profit margin spread remains limited. Thus, achieving economies of scale remains critical in attaining remunerative profitability in a highly price sensitive business like poultry.

Exposure to intense competition and inherent risk of disease outbreak in the poultry industry

The poultry industry has several organized and unorganized players catering to regional demand. The industry is driven by regional demand and supply factors because of transportation constraints and the perishability of products. It is also susceptible to disease outbreaks of diseases like bird flu, which could lead to decline in sales volume and realizations. However, various bio-security measures adopted by the company mitigate the same to some extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading Entities

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The company liquidity appears to be adequate due to the expected satisfactory gross cash accruals in the coming fiscals to cushion the annual repayment obligation which remain in the range of ~Rs.2.00 to Rs.2.50 crore. However, utilisation of bank lines averaged 97% in the 12 months through June 2021 indicates limited headroom



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in working capital limits. Further, the free cash balance as on March 31, 2021 remained at Rs. 0.22 crore.

About the Company

Incorporated in May 2017 as a partnership firm Royal Agro Farm and rechristened in December 2020 as Royal Agro Farm Pvt Ltd) is a Chennai-based entity mainly involved in broiler farming business. The company catchment area consists of Tamil Nadu and adjoining 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, Chittoor (AP) and Anakel (Bangalore, Karnataka).

The entity was constituted previously as a partnership firm in with the partners, Mr. M. S. Sunther and Mrs. Sivagami Sunther. Both the partners have also diversified business interests like Solar Projects, vehicle dealerships, logistics and food processing through their other entities.

Financials (Standalone):

For the year ended*/As on	31-03-2021**	31-03-2020	31-03-2019
Total Operating Income	141.19	214.76	11.47
EBITDA	5.01	4.47	2.01
PAT	0.25	0.33	0.53
Total Debt	27.26	18.96	16.85
Adjusted Tangible Net Worth	64.38	65.78	44.48
EBITDA Margin (%)	3.55%	2.08%	17.52%
PAT Margin (%)	0.15%	0.18%	4.57%
Adjusted Overall Gearing Ratio (x)	0.42x	0.29x	0.38x

Status of non-cooperation with previous CRA: NA



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Any other information: NA

Rating History for last three years:

Sr. No.	Name of Facilities	Current Ratings (Year 2021-22)				Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date & Rating Assigned	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan (o/s)	Long Term	16.24	IVR BB+/Stable (Reaffirmed and moved from Issuer Non-Cooperation)	IVR BB+/Stable, Issuer Non-Cooperation)	--	IVR BBB-/Stable (March 13, 2020)	--
2.	Proposed Term Loan		8.76			--	--	--
3.	Cash Credit		10.50		IVR BB+/Stable, Issuer Non-Cooperation)	--	IVR BBB-/Stable (March 13, 2020)	--
4.	Proposed Cash Credit		19.50			--	--	--



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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



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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 Facilities	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facilities (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Term Loan (o/s)	-	-	June, 2027	16.24	IVR BB+/Stable (Reaffirmed and removed from Issuer Non-Cooperation)
Long Term Bank Facility- Proposed Term Loan	-	-	-	8.76	
Long Term Bank Facility- Cash Credit	-	-	-	10.50	
Long Term Bank Facility- Proposed Cash Credit	-	-	-	19.50	

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



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Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/RoyalAgroFarm-Lenders28july21.pdf>

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Facilities	Complexity Indicator
1.	Term Loan	Simple
2.	Cash Credit	Simple

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