

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

M/s Mulpuri Poultries

March 18, 2019

Rating

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	20.00 (including proposed limits of Rs. 0.31 crore)	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Assigned
Total	20.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of M/s Mulpuri Poultries (MP) derive comfort from its experienced promoters with long track record of its operations, large size of operations compared to industry standards, improvement in capital structure & debt protection parameters, favourable demand prospects for poultry sector across India. However, the rating is constrained by falling EBIDTA margin in past years, vulnerability of profits to raw material price movements, customer concentration risk, high working capital utilization, highly fragmented and competitive poultry industry with outbreaks of bird flu. Working capital management, growth in scale of operations, trend in profitability & leverage are the key rating sensitivities.

List of Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters with long track record of operation

Mulpuri Poultries (MP) was incorporated in December, 2003. The Partners Mr. Lakshmana Swamy Mulpuri and Mr. Hari Mulpuri are involved in the family business of poultry as the main line of business since 1982. The group has presence in diversified business primarily in agro, poultry and fisheries.

Large size of operations compared to industry standards

MP has a large size of operations compared to industry standards. The firm comes among the top 5 players in Poultry farming. They have expanded their operations from Andhra Pradesh to other neighbouring states as well as north east India & West Bengal.

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Improvement in capital structure & debt protection parameters in FY18

The capital structure of the firm improved in FY 18. The long term debt equity ratio and the overall gearing ratio and total debt/ adjusted networth were comfortable as on March 31, 2018. The debt protection metrics marked by the interest coverage ratio, Long Term Debt / EBIDTA and Long-term debt to GCA was also comfortable in FY18.

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.

Key Weaknesses

Falling EBIDTA margin in past years

MP's absolute EBIDTA along with EBIDTA margin decreased vis-à-vis FY16-FY18. PAT margin, however, has improved in FY 18 as compared to FY 17. There was exceptionally good business in FY16, which normalised in FY 17, on a contrast, PAT margin of FY 18 improved vis-à-vis FY 17 due to reduced interest cost on account of debt repayment.

Vulnerability of profits to raw material price movements

With raw material costs accounting for more than 89% of the overall cost in FY18 and with limited control over selling prices of eggs & cull birds, MP's profitability is vulnerable to the volatility in raw material (key ingredients - maize and soybean) prices. Maize is the primary source of energy and constitutes about 60% of the feed, whereas soybean is the primary source of protein and forms about 30% of the feed. 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.

Customer Concentration Risk

The top ten clients accounted for ~78% of the firm's total operating income in FY18 indicating concentrated customer base. However, the firm has long relationships with most of the clients.

High working capital utilization

The firm's average utilisation of its working capital limits during last twelve months ended January 19 was high. The working capital limit of Rs.15.00 crore is optimum for the current topline, leaving lesser room for further increasing the cash credit limits.

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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 three level bio security measures.

Analytical Approach & Applicable Criteria:

Standalone

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity

MP's liquidity profile seems satisfactory in the short-medium term. The cash DSCR appears to be moderate in the projected period. The firm is performing satisfactorily, however the firm expects higher cash accruals in the projected period, due to growth in volume of sales. This, along with the experience of the promoter, do not indicate any difficulty for the firm in meeting debt obligations in the near term.

About the Company

Mulpuri Poultries (MP) was incorporated in December, 2003. The Partners Mr. Lakshmana Swamy Mulpuri and Mr. Hari Mulpuri are involved in the family business of poultry as the main line of business since 1982. The group has presence in diversified business primarily in agro, poultry and fisheries. In the year 2003, they started MP with 3 thousand birds, and currently they have an increased capacity of 12 lakh birds.

MP is engaged in poultry business predominantly in the production and sale of eggs. MP is based in Krishna district of Andhra Pradesh. The poultry farm is divided into 5 locations across the district. They are a large size poultry farm as compared to the industry standard. They are among the top 5 poultry players in the country. They supply their eggs on pan India basis, to northeast regions, Kolkata, and southern India.

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Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	90.77	93.80
EBITDA	5.11	4.87
PAT	1.01	1.82
Total Debt	25.21	23.57
Tangible Net worth	48.06	49.03
EBITDA Margin (%)	5.64	5.19
PAT Margin (%)	1.11	1.94
Overall Gearing Ratio (x)	0.52	0.48

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Available

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits – Cash Credit (including proposed limit of Rs.0.31 crore)	Long Term	15.31	IVR BB+/Stable	-	-	-
2.	Long Term Fund Based Limits – Term Loan	Long Term	4.69	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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Aakanksha N. Banthia

Tel: (033) 46022266

Email: abanthia@infomerics.com

About Infomerics:

Infomerics Valuation And Rating Pvt. Ltd.

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. 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
Cash Credit (including proposed limit of Rs.0.31 crore)	-	-	-	15.31	IVR BB+/ Stable
Term Loan	Nov-16	11.20%	Dec-21	4.69	IVR BB+/ Stable