

April 29, 2022

## Indian Agro and Food Industries Limited: Long-term rating upgraded to [ICRA]AA- (Stable) and short-term rating reaffirmed at [ICRA]A1+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-based – Working capital/ cash credit	250.00	-	-
Long term – Fund-based – Term loan	100.84	0.01	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)
Short term – Interchangeable	(250.00)	-	-
Long term/short term – Unallocated limit	21.64	372.47	[ICRA]AA- (Stable); upgraded from [ICRA]A+ (Stable)/ [ICRA]A1+; reaffirmed
<b>Total</b>	<b>372.48</b>	<b>372.48</b>	

\*Instrument details are provided in Annexure-1

### Rationale

ICRA has consolidated the financials of Indian Agro and Food Industries Limited (IAFL) and Abis Exports (India) Private Limited (AEIPL) (both part of the IB Group) along with Abis Sampoorna LLP (ASL), a 50:50 joint venture between the IB Group and the Punjab-based Sampoorna Feeds Private Limited, involved in poultry business, to arrive at the ratings. IAFL's poultry business has been demerged to AEIPL with effect from April 2020, and the corporate guarantee provided earlier by IAFL to ASL's lender would be replaced by a fresh corporate guarantee from AEIPL. Besides, AEIPL provides funding support to ASL in the form of unsecured loans and extended credit for raw material supplies.

The long-term rating upgrade considers a significant turnover growth expected in FY2022 along with healthy cash accruals from business. ICRA expects AEIPL to post a double-digit growth in the top line in the near-to-medium term and generate healthy cash accrual from business. Its ongoing capex programme for expanding capacities and increasing backward integration is likely to result in a sustained top-line growth and an improvement in the cost structure post commissioning and stabilisation of the projects, positively impacting its credit profile. In FY2021, the IB Group's overall performance improved significantly, as reflected by a turnover growth of 17% and an operating margin of 14%, on a consolidated basis compared to an operating loss in FY2020 consequent to a sharp decline in broiler realisations during February-March 2020, immediately after the start of the pandemic. In FY2021, a sharp decline in maize prices and an improvement in broiler realisations owing to shortage in availability of live birds due to lower placements and folding up of small poultry farmers and normalisation of demand from Q2 FY2021 led to a significant improvement in the Group's poultry business performance. In FY2022, the Group's consolidated operating margin is estimated to decline by around 500 basis points due to a sharp increase in the cost of inputs, primarily soya seeds. However, a robust turnover growth due to scaling up of operations is likely to keep the profits and cash accruals healthy in FY2022.

The ratings continue to draw comfort from the large scale of operations and a dominant market presence of the IB Group in the poultry and related businesses. Present across 26 states, the IB Group has an approximate market share of around 7% of the total broiler meat production in India. ICRA also notes the Group's integrated nature of operations with presence across various stages of the value chain, including manufacturing of animal feeds, grandparent farming, breeder farming, hatchery, broiler farming, layer farming, chicken processing, soya and rice bran oil extraction and refining, which strengthen the competitive position of the Group. The Group's strategic partnership with Aviagen India Poultry Breeding Company Pvt. Ltd. (Aviagen) for procurement of grandparent day-old chicks (DOCs) has helped the IB Group integrate its operations further over

the past few years. Moreover, sourcing of the major portion of the poultry feed internally ensures better control over poultry feed costs, quality and availability. The ratings are, however, constrained by the susceptibility of margins of the Group's poultry business to highly volatile feed prices, which are dependent on agro-climatic conditions (maize and soya being the main raw materials for poultry feed manufacturing), international prices and government interventions in terms of setting the minimum selling prices (MSP), export-import policies etc. While arriving at the ratings, ICRA also notes the volatility in broiler realisations due to the seasonal nature of demand of poultry products in India, which has a significant bearing on the profitability of all integrators, including the IB Group. The Group, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu). However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent. While achievement of the financial closure of the large ongoing capex mitigates funding risks, execution of the capex within the budgeted cost and estimated timeframe will remain critical from the credit perspective, as a sizeable debt service obligation would arise from the capex programme.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's overall business profile will remain strong, supported by a sustained turnover growth and an improving cost structure. Its consolidated financial profile is likely to remain strong with healthy cash accruals, a conservative capital structure and comfortable debt coverage metrics despite the sizeable debt-funded capex.

## Key rating drivers and their description

### Credit strengths

**Growing scale of operation and material cost savings expected due to increasing backward integration resulting from the ongoing capex** – The Group's consolidated operating income witnessed a CAGR of around 24% between FY2017 and FY2021, and is likely to register a robust growth of around 30% in FY2022, driven by a consistent expansion of capacities and increasing market penetration across the country. In the recent years, the Group had set up facilities for feed manufacturing, hatchery and breeder farming outside Chhattisgarh and scaled up broiler farming integration in other states to expand its market footprint. AEIPL's large ongoing capex is aimed towards further expansion of its own infrastructure in and outside Chhattisgarh and cost reduction through increasing the level of backward integration. The capacity expansion and material cost savings expected from the ongoing capex are likely to result in healthy cash accruals, going forward, positively impacting the Group's overall credit profile.

**Large scale of operations and dominant market presence of IB Group in the poultry and related businesses with well-integrated presence across the value chain** – The IB Group has a dominant presence in the Indian animal feed and poultry industry and it is among the top few players in the domestic broiler segment. It has been in this line of business for nearly four decades and has been able to expand its geographical presence significantly over the years. ICRA expects the Group's growth momentum to continue, going forward, given AEIPL's continuing capacity expansion, strong demand prospects of the domestic poultry industry on the back of favourable socio-economic factors and low per-capita consumption at present. The Group has integrated nature of operations with its presence across various stages of the poultry value chain, including manufacturing of animal feeds, grandparent farming, breeder farming, hatchery, broiler farming, layer farming, chicken processing (at a low scale at present), soya and rice bran oil extraction and refining. These strengthen the competitive position of the IB Group, as reflected by a marked improvement in the overall scale of operations over the years and a favourable cost structure. Sales of broiler and other birds accounted for around 57% of AEIPL's total sales in FY2021, while shrimp feed, fish feed and soya/rice bran oil together contributed around 31%, leading to diversification of revenue to an extent. AEIPL's integrated operations help it to have a greater control over the cost as well as the quality of the produce. The company is also focusing on reducing the mortality rates by implementing advanced vaccination technologies and promoting broiler farming by integrators in environment-controlled cages, which are likely to strengthen its operational efficiency.

**Tie-up with Aviagen India for sourcing of grandparent day-old chicks strengthens operational profile** – The IB Group has entered into a strategic partnership with Aviagen India for purchasing ROSS 308 Modified AP 95 variety of grandparent day-old chicks from the latter. With this agreement, the IB Group has been able to integrate its operations further by ensuring a steady supply of grandparent day-old chicks, which supported a consistent revenue growth of the Group's poultry business.

**In-house availability of poultry feed ensures quality, availability as well as better control over prices** – The main raw material required in poultry farms is feed, which accounts for the major cost, with others being the cost of day-old chicks, medicines etc. The major portion of the Group's poultry feed requirement is met internally, enabling it to have a better control on the quality, availability and prices of the feed. The Group has a favourable feed conversion ratio, which is a critical parameter for profitability in the poultry business.

## Credit challenges

**Profitability vulnerable to movement in raw material prices** – The major raw materials required for poultry feed are maize and soya de-oiled cake. AEIPL has solvent extraction facilities for manufacturing soya de-oiled cake from soya seeds. The prices of raw materials (maize and soya seeds) remain volatile on the back of fluctuation in domestic production due to dependence on agro-climatic conditions, international prices, government regulations, and demand from the animal husbandry sector, which is susceptible to seasonality in demand. The Group's profitability, like other entities in the poultry business, will remain vulnerable to the movement in feed prices. A sharp decline in maize prices in FY2021 helped the integrators in achieving better cost of production, thereby improving their profitability. However, in FY2022, the prices of soya seeds in the domestic market increased sharply and are likely to remain elevated compared to the historical average prices, resulting in a drop in the operating margin from the FY2021 level. Nevertheless, the average broiler realisation has also improved, which is likely to offset the impact of the cost increase on the Group's profitability to a large extent, given its favourable feed-conversion ratio.

**Margin susceptible to highly volatile broiler realisations** – As inherent in the industry, the broiler production cost and realisations vary considerably across geographies and are impacted by the seasonality as well as local supply dynamics. However, the movement in feed prices generally follows 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. In FY2020, the IB Group incurred significant losses due to a substantial decline in the broiler realisation mainly on concerns linking chicken as the possible vector of the coronavirus disease, which resulted in a sharp decline in domestic demand during February-March 2020. Nevertheless, a significant improvement in broiler realisation along with a softening of maize prices, subsequently, led to a robust profitability in FY2021.

**Inherent risk in poultry business** – The Group, like other entities in the poultry and related businesses, is exposed to the inherent industry risk of disease outbreaks (bird flu or avian influenza). However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent. Bird flu, which occurred sporadically in FY2021 across different regions, had a negligible impact on the Group's overall performance due to the safety measures adopted by it.

**Risks of time and cost overrun in the large ongoing capex, given a sizeable debt service obligation arising from the same** – AEIPL has embarked upon a large capex of around Rs. 1,250 crore for setting up feed plants, solvent extraction, refinery and hatcheries in multiple states along with solar power plants (30 MW), a packaging bag manufacturing unit and a soya badi plant. While the soya badi plant and a hatchery in Karnataka have already been commissioned, the entire capex is scheduled to be concluded within FY2024. The capex is being funded by term loans of around Rs. 938 crore and the balance through internal accruals. Successful financial closure mitigates the funding risks for the capex. However, execution of the capex within the budgeted cost and estimated timeframe will remain critical from the credit perspective, given a sizeable debt service obligation arising from the same.

## Liquidity position: Adequate

The Group's liquidity is **adequate**. Its consolidated cash flow from operations stood at around Rs. 397 crore in FY2021. Although the same is estimated to decline in FY2022 due to a moderation in profitability and incremental working capital requirement due to higher scale of operations, it is likely to improve and remain healthy from FY2023. Out of the planned capex of around Rs. 1,250 crore scheduled to be executed by FY2024, AEIPL incurred more than Rs. 300 crore within March 2022 primarily from internal accruals and prepaid sizeable term loans (nearly Rs. 80 crore), reflecting an adequate liquidity position. Successful

financial closure (for Rs. 938 crore term loans) mitigates the funding risks for the capex. The repayment tenure of the term loans is around six years post moratorium. AEIPL's debt repayment obligation would increase significantly in the coming few years. However, the consolidated cash flows from operations are expected to remain healthy vis-à-vis the scheduled debt repayment. Besides, a significant unutilised working capital (Rs. 190 crore on an average during August 2021 to January 2022) and free cash and bank balances (around Rs. 110 crore at present) are likely to support the consolidated entity's liquidity position.

## Rating sensitivities

**Positive factors** – A further upgrade of the long-term rating is unlikely in the near-to-medium term due to inherent risks in the poultry industry and a sizeable ongoing capex.

**Negative factors** – Pressure on the ratings may emanate from any sharp deterioration in revenue/ profit, a significant rise in debt levels or weakening of the liquidity position. Specific credit metrics that may lead to a downgrade of the ratings include weakening of DSCR below 3 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology Rating Approach - Consolidation</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of IAFL with two other related entities, which are enlisted in Annexure-2

## About the company

Indian Poultry was established as a partnership firm in 1985 by Mr. Sultan Ali, Mr. Bahadur Ali and their family members in Rajnandgaon, Chhattisgarh. In April 2009, the partners converted Indian Poultry into a public limited company, following which it was renamed as Indian Agro and Food Industries Limited (IAFL). The company gradually expanded its poultry business and remained involved in grandparent farming, parent breeder farming, broiler farming, incubation, layer farming and chicken processing. However, with effect from April 2020, the entire poultry operation of IAFL has been demerged to the Group company, Abis Exports (India) Private Limited (AEIPL), which is also involved in production of animal feeds, soya crude oil, rice bran crude oil and refined oils. As a part of the Group restructuring, the pet food division of AEIPL, Drools, has been demerged as a going concern to a newly formed company, Drools Pet Food Private Limited, with effect from April 2020.

## Key financial indicators (audited)

IAFL	Standalone		Consolidated*	
	FY2020	FY2021 <sup>^</sup>	FY2020	FY2021
Operating Income (Rs. crore)	3082.6	0.0	5116.4	5992.0
PAT (Rs. crore)	-290.7	-97.0	-285.8	536.8
OPBDIT/OI (%)	-9.5%	-636.3%	-1.2%	14.0%
PAT/OI (%)	-9.4%	-323499.7%	-5.6%	9.0%
Total Outside Liabilities/Tangible Net Worth (times)	4.0	0.0	1.4	0.9
Total Debt/OPBDIT (times)	-1.3	0.0	-13.3	0.9
Interest Coverage (times)	-10.0	-	-1.0	14.0
DSCR	-7.4	0.0	-1.1	4.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \*ICRA estimates; ^IAFL's poultry business was demerged to AEIPL with effect from April 2020 resulting in a nominal standalone revenue in FY2021; IAFL's sizeable net loss in FY2021 was mainly due to deferred taxes

### Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 28, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020					
				Apr 29, 2022	Apr 14, 2021	June 12, 2020	Mar 30, 2020	Feb 17, 2020	Jul 05, 2019	May 14, 2019	Apr 29, 2019	
1 Fund Based/ Cash Credit	Long-term	-	-	-	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2 Term Loan	Long-term	0.01	0.01	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A+ (Negative)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
3 Interchangeable* *	Short term	-	-	-	[ICRA]A1+	[ICRA]A1	[ICRA]A1	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4 Unallocated Limits	Long-term / short term	372.47	-	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]A+ (Stable)/ [ICRA]A1+	-	-	-	-	-	-	-
5 Proposed non-convertible debenture programme	Long-term	-	-	-	-	-	-	-	-	-	[ICRA]A+ (Stable); withdraw n	[ICRA]A+ (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Term loan	Simple
Unallocated limit	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	Jan-2019	-	Aug-2025	0.01	[ICRA]AA- (Stable)
NA	Unallocated limit	-	-	-	372.47	[ICRA]AA- (Stable)/ [ICRA]A1+

Source: Company

### Annexure-2: List of entities considered for consolidated analysis: Not applicable

Company Name	IAFL's Ownership	Consolidation Approach
Abis Exports (India) Private Limited (AEIPL)	-	Full Consolidation
Abis Sampoorna LLP (ASL)	-	Full Consolidation

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