June 12, 2023

C. L. Enterprises Pvt. Ltd.: Long-term rating reaffirmed; short-term rating of [ICRA]A1 assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	13.00	13.00	[ICRA]A (Stable), reaffirmed
Long-term Fund-based – Term Loan	8.00	2.00	[ICRA]A (Stable), reaffirmed
Long-term/ Short-term Non-Fund based – Working Capital Facilities	-	1.00	[ICRA]A (Stable), reaffirmed/ [ICRA]A1, assigned
Long-term/ Short-term – Unallocated Limits	-	5.00	[ICRA]A (Stable), reaffirmed/ [ICRA]A1, assigned
Total	**21.00**	**21.00**	

**Instrument details are provided in Annexure – I*

Rationale

For arriving at the rating(s), ICRA has considered the consolidated business risk profile of C. L. Enterprises Private Limited (CLEPL, rated at [ICRA]A (Stable)/ [ICRA]A1), Galsi Commercial Farms LLP (GCFL, rated at [ICRA]A (Stable)), Infinity Feeds Private Limited (IFPL, rated at [ICRA]A (Stable)/ [ICRA]A1), Shalimar Hatcheries Limited (SHL, rated at [ICRA]A (Stable)/ [ICRA]A1), Shalimar Nutrients Private Limited (SNPL, rated at [ICRA]A (Stable)/ [ICRA]A1), Shalimar Pellet Feeds Limited (SPFL, rated at [ICRA]A (Stable)/ [ICRA]A1), Sona Vets Private Limited (SVPL, rated at [ICRA]A (Stable)/ [ICRA]A1) and Utkal Feeds Private Limited (UFPL, rated at [ICRA]A (Stable)/ [ICRA]A1), referred to as the Shalimar Group/ Group, given the close business, financial and managerial linkages among them. Moreover, CLEPL, SHL, SPFL and SVPL have extended corporate guarantees to other entities among the Group for availing bank facilities.

The ratings consider the established presence of the Shalimar Group in the poultry and related businesses and operational linkages among the Group entities, which support its market position. ICRA also notes the Group's large scale and integrated nature of operations with its presence across various stages of the value chain, including soya solvent extraction, refining, manufacturing of poultry feed, breeder farming, hatchery, broiler farming, layer farming and chicken processing. This has helped the Group in achieving operational efficiency over the years and strengthening its market position. The ratings continue to derive comfort from the favourable financial risk profile of the Group, characterised by a conservative capital structure and comfortable debt coverage metrics, which are likely to continue in the near-to-medium term.

The ratings, however, are constrained by the susceptibility of the Group's margin to the highly volatile feed prices, which depend on agro-climatic conditions (maize and soya being the main raw materials for poultry feed manufacturing), international prices and government interventions in terms of minimum selling prices etc. A significant rise in the price of soya in FY2022 and maize in FY2023 led to an increase in the feed prices over the past two years, thereby increasing the overall cost of broiler production. In the absence of commensurate improvement in the broiler realisation, the overall profitability of the Group was adversely impacted in FY2022 as well as in FY2023. However, the current fiscal has started with a favourable note of relatively lower level of soya and maize prices. This is likely to support the profitability of the players in the poultry industry, including the Shalimar Group. While arriving at the ratings, ICRA has also noted the volatility in broiler realisations due to the seasonal nature of demand of poultry products in India, which has a significant bearing on the Group's profitability. The Group, like other entities in the poultry and related business, is also exposed to the inherent risk of disease outbreak (bird flu). However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the established presence of the Shalimar Group in the poultry business for over four decades would continue to support its business position and the profitability level in the long run. Besides, the financial risk profile of the Group is likely to remain comfortable, going forward, along with adequate cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Established presence of the Shalimar Group in poultry and related businesses – The Shalimar Group has a dominant presence in the poultry industry, primarily in the eastern and north-eastern parts of India. The Group has been involved in this line of business for over four decades and has multiple business divisions, which include soya solvent extraction, refining, manufacturing of poultry feed, breeder farming, hatchery, broiler farming, layer farming and chicken processing. The Group sells its value-added products under the brand name, TOTAL, viz. Total Chicken (processed chicken), Total Gold (soya refined oil), Total Supreme, Total Classic (packaged eggs) etc.

Large scale of operations; operational linkages among Group entities support its market position – The Group has a relatively larger scale of operations with an estimated top line of around Rs. 4,255 crore in FY2023 with an integrated presence across the value chain through various entities, resulting in strong operational efficiencies. ICRA expects the Group to post a revenue growth (YoY) of 9-10% in FY2024, driven by an overall increase in the volume of sales along with an increase in the broiler realisations. ICRA believes that the integrated operations of the Group, spanning across refinery and manufacturing of poultry feeds to broiler farming and processed chicken, help it to have a greater control over the cost as well as the quality of the produce. The integrated operations of the Group provide significant competitive advantages over other unorganised players, as reflected by a marked improvement in the overall scale of operations over the years.

Well-integrated presence across the value chain – The Group has presence across the value chain of the poultry industry. The Group has a company, which produces soya de-oiled cake (soya DOC) and around 95% of the Group's requirement for soya DOC for manufacturing the poultry feed is sourced internally. Further, 100% of the Group's poultry feed requirement is met internally, and the excess feed produced is sold in the open market. These enable the Group to have a better control on the quality of the feed. However, the Group depends on external sources to meet its requirement for hatching eggs as its in-house capacity is not sufficient to meet its entire requirement, exposing the Group's profitability to any adverse movement in hatching egg prices. Nevertheless, dependence on external sources for procuring hatching eggs has gradually reduced over the years from around 65% in FY2018 to around 33% in FY2023 because of the planned expansion made by the Group in the breeder farming capacity. Although Shalimar's major portion of the revenue comes from the sale of broilers, it also has a unit for processed and frozen chicken at Galshi, Burdwan. The Group is also undertaking a few capital expenditure (capex) programmes both towards backward and forward integration to increase the capacity of feed manufacturing, breeder farming, hatching, layer farming, broiler farming and chicken processing. ICRA believes that the integrated operations of the Group, spanning across refinery and manufacturing of poultry feeds to broiler farming and processed chicken, help it to have a greater control over the cost as well as the quality of the produce.

Favourable financial risk profile characterised by a conservative capital structure and comfortable debt protection metrics – The capital structure of the Group continues to remain conservative on account of a healthy net worth and limited external borrowings. The consolidated gearing and TOL/TNW stood at 0.4 times and 0.7 times, respectively as on March 31, 2022. With enhanced working capital borrowings to support the increased scale of operations, the overall debt level of the Group has increased to an extent in FY2023. Despite some moderation estimated in FY2023, the coverage indicators have remained comfortable over the past years owing to healthy profits as well as cash accruals and a low gearing. Nevertheless, the capital structure would continue to remain at a conservative level, going forward. ICRA does not foresee any major deterioration in the coverage indicators in the near term, at least.

Credit challenges

Steady decline in profitability over the past two years; likely improvement in the current fiscal – Prices of soya and maize, which are basic raw materials for the poultry feed, witnessed a significant rise in FY2022 and FY2023, respectively. This adversely impacted the operating margin of the Group in the absence of a commensurate improvement in the broiler realisation. The OPM of the Group fell to 4.3% in FY2022 from 8.5% in FY2021. Again, the same is estimated to fall to around 3.5% in FY2023. However, in view of moderation in the prices of soya and maize at the beginning of the current year, ICRA expects the operating profitability of the Group to improve to around 4.5% in FY2024. The cash accruals from business and RoCE of the Group are also likely to improve in FY2024 compared to the previous year and would continue to remain at a healthy level.

Profitability vulnerable to movement in raw material prices – The major raw materials required for poultry feed production are maize and soya DOC, which together contribute more than 90% to the poultry feed volume. The prices of raw materials 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 profitability of Shalimar, like other entities in the poultry business, will remain vulnerable to the movement in feed prices. However, the quality and availability of feed are assured as the same is manufactured in-house.

Margin susceptible to high volatility in broiler realisations – In the past, the Indian poultry industry has been periodically affected by unfavourable broiler realisations owing to the seasonal nature of demand of poultry products in India and occasional over-supply situation in the market. In FY2020, Shalimar had to book significant losses due to a significant decline in realisation of broiler 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. However, the scenario improved after it was established that there was no connection of spread of corona virus with poultry products. Accordingly, broiler realisation witnessed significant improvement in FY2021 and inched up further, to an extent, in FY2022. However, the same remained almost stagnant in FY2023.

Exposed to the inherent industry risk of disease outbreak – The Group, like other entities in the poultry and related businesses, remains exposed to the inherent industry risk of disease outbreak (bird flu). However, ICRA notes the various bio-security measures adopted by the Group over the years, which mitigate the risk to some extent.

Liquidity position: Adequate

In view of an improvement in the scale of operations and operating profitability along with a marginal decline in the working capital intensity, the Group's cash flow from operations is estimated to remain healthy in FY2024. The Group's overall working capital utilisation stood at a moderate level of around 57% during the last 15 months, ended in April 2023, leaving enough room for future working capital requirement of the Group. The Group has a few planned capital expenditure over the next two years, which adds up to around Rs. 100 crore. The same would be funded through a mix of bank loans, internal accruals and contribution from the promoters/ Group entities. Given the moderate size of capital expenditure plan compared to its current balance sheet size and the likely sizeable cash accruals from business, undrawn working capital limits and surplus cash/ bank balance, ICRA expects the overall liquidity position of the Shalimar Group to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in revenue, profits and cash accruals of the Group on a sustained basis.

Negative factors – ICRA may downgrade the ratings if there is a significant deterioration in the Group's profitability and/or an unanticipated large debt-funded capital expenditure adversely impacts the company's credit profile. Specific credit metric that may trigger a rating downgrade include a consolidated interest coverage of less than 4.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Edible Oil
Parent/ Group support	Not Applicable
Consolidation/ Standalone	For arriving at the ratings, ICRA has considered the consolidated business risk profiles of various Group entities (as mentioned in Annexure – II), given the close business, financial and managerial linkages among them.

About the company

Incorporated in 1994, CLEPL manufactures poultry feed with an annual production capacity of 60,000 metric tonne. The manufacturing facility of the company is located at Howrah, West Bengal. The company is in the process of increasing its production capacity by 60,000 MTPA by setting up another plant in the same factory premise, which is scheduled to commence commercial operation in October, 2023.

The company is a part of the Shalimar Group based in Kolkata, West Bengal, which has presence across soya extraction and refining, poultry and aqua feed manufacturing, breeder farming, hatching, broiler farming, chicken processing, layer farming and milk processing into milk and milk products.

Key financial indicators (audited)

	C. L. Enterprises Private Limited – Standalone		Shalimar Group - Consolidated	
	FY2021	FY2022	FY2021	FY2022
Operating income	119.5	186.9	2,846.5	3,461.4
PAT	0.3	2.7	148.7	87.0
OPBDIT/OI	2.9%	3.1%	8.5%	4.3%
PAT/OI	0.3%	1.4%	5.2%	2.5%
Total outside liabilities/Tangible net worth (times)	5.2	3.7	0.6	0.7
Total debt/OPBDIT (times)	4.3	2.7	0.8	1.8
Interest coverage (times)	2.4	3.9	13.5	11.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Source: C. L. Enterprises Private Limited, Galsi Commercial Farms LLP, Infinity Feeds Private Limited, Shalimar Hatcheries Limited, Shalimar Nutrients Private Limited, Shalimar Pellet Feeds Limited, Sona Vets Private Limited, Utkal Feeds Private Limited, ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jun 12, 2023	Apr 7, 2022	-	Mar 31, 2021	Jul 7, 2020
1	**Fund-based working capital facilities**	Long Term	13.00	12.30	**[ICRA]A (Stable)**	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Negative)
2	**Term Loan**	Long Term	2.00	3.38	**[ICRA]A (Stable)**	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Negative)
3	**Non-fund based working capital facilities**	Long Term/ Short Term	1.00	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	-	-	-
4	**Unallocated Limits**	Long Term/ Short Term	5.00	-	**[ICRA]A (Stable)/ [ICRA]A1**	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple
Long-term fund-based – Term Loan	Simple
Long-term/ Short-term non-fund based – Working Capital	Very Simple
Unallocated Limits	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 are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Cash Credit/ WCDL/ FCDL**	-	-	-	13.00	[ICRA]A (Stable)
-	**Term Loan**	FY2018	-	FY2024	2.00	[ICRA]A (Stable)
-	**Bank Guarantee**	-	-	-	1.00	[ICRA]A (Stable)/ [ICRA]A1
-	**Unallocated Limits**	-	-	-	5.00	[ICRA]A (Stable)/ [ICRA]A1

Source: C. L. Enterprises Private Limited

Annexure II: List of entities considered for consolidated analysis

Company Name	CLEPL Ownership	Consolidation Approach
Galsi Commercial Farms LLP	-	Full Consolidation
Infinity Feeds Private Limited	-	Full Consolidation
Shalimar Hatcheries Limited	12.17%	Full Consolidation
Shalimar Nutrients Private Limited	2.33%	Full Consolidation
Shalimar Pellet Feeds Limited	15.72%	Full Consolidation
Sona Vets Private Limited	30.00%	Full Consolidation
Utkal Feeds Private Limited (Subsidiary of Shalimar Pellet Feeds Limited)	-	Full consolidation

Source: C. L. Enterprises Private Limited, Galsi Commercial Farms LLP, Infinity Feeds Private Limited, Shalimar Hatcheries Limited, Shalimar Nutrients Private Limited, Shalimar Pellet Feeds Limited, Sona Vets Private Limited, Utkal Feeds Private Limited

Note: ICRA has taken a consolidated view of the above-mentioned entities, referred to as Shalimar Group/ Group while assigning the rating(s).

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