July 26, 2023

Abis Exports (India) Private Limited: Ratings reaffirmed; rated amount enhanced

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	765.00	1000.00	[ICRA]AA- (Stable); Reaffirmed/ Assigned for enhanced amount
Long term – Fund-based – Term loans	888.26	856.34	[ICRA]AA- (Stable); Reaffirmed
Short term – non-fund based	75.00	200.00	[ICRA]A1+; Reaffirmed/ Assigned for enhanced amount
Long term – Unallocated limit	-	11.92	[ICRA]AA- (Stable); Assigned
Total	**1728.26**	**2068.26**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has consolidated the financials of Abis Exports (India) Private Limited (AEIPL) and Abis Sampoorna LLP (ASL), a 50:50 joint venture between AEIPL, the flagship company of the Chhattisgarh-based IB Group, and the Punjab-based Sampoorna Feeds Private Limited (SFPL), involved in poultry business, to arrive at the ratings. AEIPL has provided a corporate guarantee to ASL's lender for the latter's bank facilities. Besides, there is a track record of funding support to ASL from AEIPL in the form of unsecured loans and extended credit period for raw material supplies. Earlier ICRA had also consolidated Indian Agro and Food Industries Limited (IAFL, a part of the IB Group) along with AEIPL and ASL to arrive at the ratings. However, IAFL's poultry business was demerged to AEIPL with effect from April 2020, and no further fungibility of fund between IAFL and AEIPL remains.

The ratings reaffirmation continues to consider the large scale of operations and a dominant market presence of the IB Group in the poultry and related businesses, present across ~20 states. 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. Post completion of the ongoing capacity expansion at different locations, almost the entire poultry feed requirement of the company would be met internally. The company's consolidated operating margin contracted to 5.2% in FY2023 (provisional) from 9.0% in FY2022 on the back of a sharp increase in raw material costs mainly due to a rise in maize prices and a marginal decline in broiler realisations. However, an improvement in broiler realisations and a moderation in raw material prices have led to a higher operating margin of 14.5% in Q1 FY2024 vis-à-vis 10.7% in Q1 FY2023 (provisional). ICRA expects the operating margin to be higher in FY2024 compared to FY2023. AEIPL's ongoing capex programme for expanding its capacities and increasing the backward integration is likely to result in a sustained growth in the scale of operation and an improvement in the cost structure post commissioning and stabilisation of the projects, which would support its profits and cash accruals.

The ratings are, however, constrained by the susceptibility of margins of the Group's poultry business to the 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, demand from other end-user sectors 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 successful debt tie-up and AEIPL's adequate liquidity position mitigate funding risks of the large ongoing capex, execution of the pending 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, amid a sustained growth and increasing backward integration, supporting the 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

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. It is currently the second largest player in the domestic broiler business with presence across ~20 states. It has been in this line of business for nearly four decades and has been able to expand its geographical reach significantly over the years. ICRA expects the Group's growth momentum to continue, going forward, given AEIPL's continuing capacity addition, favourable 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. Around 65% of AEIPL's total sales in FY2023 was derived from the sale of live birds, followed by 16% from soya and rice bran oil and 8% from fish and shrimp feed, 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 improving the operating parameters like mortality rates and feed conversion ratio by implementing advanced hatching and vaccination technologies, promoting broiler farming by farmers in environment-controlled cages, etc. ICRA notes that the company has inducted three industry veterans, who have long experiences in banking, FMCG and poultry business, in its top management. This is likely to strengthen the company's overall management functions, in tandem with its growing scale.

Growing scale of operation and increasing backward integration resulting from the ongoing capex to positively impact cash accruals – The Group's consolidated operating income witnessed a CAGR of around 22% between FY2018 and FY2023, and is estimated to register a significant growth, going forward, driven by a consistent expansion of capacities and increasing market penetration across the country. Since the last few years, the Group has been setting up facilities for feed manufacturing, hatchery and breeder farming outside Chhattisgarh and has 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 level of backward integration. The ongoing capacity expansion will significantly reduce AEIPL's dependence on third-party feed producers and hatcheries. Moreover, the better yield and quality of output from the company's own feed plants and hatcheries, which have advanced technologies and quality controls, compared to third party facilities, would strengthen AEIPL's cost structure. Captive solar power plants and own packaging facilities, which are a part of the ongoing capex, would also reduce the company's operating costs. Besides, expansion of the fish feed manufacturing facility (for which the company has received project funding as well as technical assistance and funding for farmers' training on sustainable fish farming and financial literacy from the Asian Development Bank) would diversify AEIPL's revenue stream to an extent. The company is also entitled to receive sizeable Government subsidies, interest remission, custom duty, mundi tax waiver etc., for undertaking the capex, which would strengthen its cash flows. A significant growth in the company's scale of operation and material cost savings that would arise from the ongoing capex are likely to result in healthy cash accruals, going forward.

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 increase in the prices of maize resulted in a contraction of the Group's consolidated profitability to 5.2% in FY2023 from 9.0% in FY2022. However, moderation in maize and soya prices witnessed in the recent months is likely to support the company's profitability in the current fiscal.

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.

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.

Project risks associated with the large ongoing capex, which will give rise to a sizeable debt service obligation – AEIPL is in the process of implementing a large capex for setting up feed plants, solvent extraction, refinery and hatcheries in multiple states along with solar power plants (30 MW), packaging bag manufacturing units and a soya badi plant. Some of the facilities viz. the solar power plants, hatcheries in Karnataka, Assam and Uttar Pradesh, poultry feed plants in Chhattisgarh and Uttar Pradesh, a fish feed plant in Chhattisgarh, one of the packaging units and the soya badi plant have already been commissioned. Although some delay in commissioning in case of a few facilities are likely, most of the planned facilities are likely to be operational within FY2025. No major cost escalation is likely in the pending capex. The initial budget of the capex was ~Rs. 1,250 crore. However, the company has added three more feed plants to the capex plan, which will result in an additional cost of Rs. 251 crore. The total long-term debt contracted for the ongoing capex stands at around Rs. 1,200 crore. Successful financial closure and AEIPL's adequate liquidity position mitigate the funding risks for the capex. However, execution of the balance 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 same.

Liquidity position: Adequate

AEIPL's liquidity position is adequate. Its consolidated fund flow from operations moderated to around Rs. 340 crore in FY2023 from around Rs. 510 core in FY2022 due to a contraction in the operating profitability. However, the same is likely to remain healthy and improve, going forward. Its cash flow from operations is likely to remain healthy despite incremental working capital requirement on the back of a significant scaling up of operations,. Out of the company's planned capex programme, around Rs. 500 crore was pending as of March 2023 (including three new poultry feed plants added to the capex plan recently). However, undrawn term loans of a similar amount ensure adequate fund availability for the pending capex. In addition, sizeable undrawn working capital of around Rs. 290 crore with respect to the drawing power and healthy free cash and bank balances of around Rs. 125 crore as on March 31, 2023 are likely to keep the liquidity position of the consolidated entity adequate despite a significant debt repayment obligation (around Rs. 163-250 crore annually till FY2026) arising from the ongoing capex.

Rating sensitivities

Positive factors – Successful completion of the ongoing capex programme and a significant improvement in the cash accruals on a sustained basis may result in an upgrade of the long-term rating. ICRA may upgrade the long-term rating if the consolidated interest coverage improves to more than 11 times on a sustained basis.

Negative factors – Pressure on the ratings may emanate from any sharp deterioration in the revenue or 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 a decline in the consolidated DSCR below 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of AEIPL with a related entity, which is enlisted in Annexure-II

About the company

Abis Exports (India) Private Limited (AEIPL), incorporated in 1998, is promoted by Mr. Sultan Ali, Mr. Bahadur Ali and their family members. The company was set up as a part of the Indian Broiler (IB) Group's backward integration plan to provide pellet feed to the various poultry farms owned by the promoters through other Group companies. In 1998, the company had set up its first manufacturing unit in Rajnandgaon (Chhattisgarh) for producing animal feed (poultry and cattle feed) with a capacity of 100 tonnes per day (TPD). Subsequently, it expanded the poultry and cattle feed manufacturing capacity and set up facilities for producing soya DOC, fish feed, shrimp feed, pet feed, soya crude oil, rice bran crude oil and refined oils in and outside Chhattisgarh. The poultry division of the Group company, Indian Agro and Food Industries Limited (IAFL), was demerged to AEIPL with effect from April 2020. Consequently, the grandparent farming, breeder farming, broiler farming, incubation, layer farming and chicken processing facilities were transferred to AEIPL from AIFL. In the process, the pet food division of AEIPL, Drools, was demerged as a going concern to Drools Pet Food Private Limited, a newly formed company.

Key financial indicators (audited)

AEIPL	Standalone				Consolidated*	
	FY2022	FY2023^	Q1 FY2023^	Q1 FY2024^	FY2022	FY2023
Operating income	7754.0	9087.8	2263.8	2724.2	7837.3	9165.7
PAT	404.7	202.0	180.0	313.5	413.9	208.7
OPBDIT/OI	8.8%	5.1%	10.7%	14.5%	9.0%	5.2%
PAT/OI	5.2%	2.2%	8.0%	11.5%	5.3%	2.3%
Total outside liabilities/Tangible net worth (times)	0.8	1.1	-	-	0.9	1.1
Total debt/OPBDIT (times)	1.6	3.5	-	-	1.6	3.4
Interest coverage (times)	12.4	6.1	16.4	15.3	12.0	6.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
*Source: Company, ICRA Research; *ICRA estimates; ^Provisional*

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 of March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jul 26, 2023	Apr 27, 2023	Apr 29, 2022	Apr 14, 2021	Jun 12, 2020
1	**Fund-based – Working capital/ cash credit**	Long term	1000.00	-	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
2	**Fund-based – Term loans**	Long term	856.34	572.74	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]AA- (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)
3	**Non-fund based – Letter of credit/ bank guarantee**	Short term	200.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1
4	**Unallocated limit**	Long term	11.92	-	[ICRA]AA- (Stable)	-			
5	**Fund-based – Working capital**	Short term	-	-	-	-	[ICRA]A1+	-	-
6	**Interchangeable**	Short term	-	-	-	-	-	[ICRA]A1+	[ICRA]A1
7	**Unallocated limit**	Long / short term	-	-	-	-	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-
8	**Commercial Paper#**	Short term	-	-	-	[ICRA]A1+; Withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based – Working capital/ cash credit	Simple
Fund-based – Term loans	Simple

Non-fund based – Letter of credit/ bank guarantee	Very 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 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
NA	Fund-based working capital/ cash credit	-	-	-	1000.00	[ICRA]AA- (Stable)
NA	Term Loan- 1	Feb-19	-	FY2026	16.00	[ICRA]AA- (Stable)
NA	Term Loan- 2	Dec-19	-	FY2026	59.20	[ICRA]AA- (Stable)
NA	Term Loan- 3	Oct-20	-	FY2030	75.00	[ICRA]AA- (Stable)
NA	Term Loan- 4	Sep-19	-	FY2026	18.00	[ICRA]AA- (Stable)
NA	Term Loan- 5	Sep-20	-	FY2025	14.51	[ICRA]AA- (Stable)
NA	Term Loan- 6	Jan-19	-	FY2024	3.00	[ICRA]AA- (Stable)
NA	Term Loan- 7	Aug-21	-	FY2029	30.00	[ICRA]AA- (Stable)
NA	Term Loan- 8	Feb-22	-	FY2030	25.00	[ICRA]AA- (Stable)
NA	Term Loan- 9	Feb-22	-	FY2030	75.00	[ICRA]AA- (Stable)
NA	Term Loan- 10	Feb-22	-	FY2030	300.00	[ICRA]AA- (Stable)
NA	Term Loan- 11	Mar-22	-	FY2029	100.13	[ICRA]AA- (Stable)
NA	Term Loan- 12	Mar-22	-	FY2030	50.00	[ICRA]AA- (Stable)
NA	Term Loan- 13	Mar-22	-	FY2030	50.00	[ICRA]AA- (Stable)
NA	Term Loan- 14	Nov-22	-	FY2028	40.50	[ICRA]AA- (Stable)
NA	Non-fund based – Letter of credit/ bank guarantee	-	-	-	200.00	[ICRA]A1+
NA	Unallocated limit	-	-	-	11.92	[ICRA]AA- (Stable)

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	AEIPL's Ownership	Consolidation Approach
Abis Sampoorna LLP (ASL)	50.0%	Full Consolidation

Source: Company

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