

October 31, 2023

Life Line Hatcheries: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based - Term Loan	29.50	29.50	[ICRA]BBB (Stable); reaffirmed
Total	29.50	29.50	

*Instrument details are provided in Annexure-I

Rationale

While assigning the rating, ICRA has taken a consolidated view of Life Line Feeds India Pvt. Ltd. (LLF) and the promoter's proprietorship firm, Life Line Hatcheries (LLH), collectively referred to as the Group in this report, given their operational synergies, common promoters and the corporate guarantee extended by LLF to LLH.

The rating reaffirmation factors in ICRA's expectations that overall credit risk profile of the Group will improve in FY2024 given better poultry meat realisations and stability in feed prices over the latter half of the previous fiscal. Further, the ongoing debt backed capex is also expected to generate returns, going forward, resulting in improvement in coverage indicators, which remained under pressure in FY2023. The rating reaffirmation further factors in the Group's healthy and diversified revenue streams through retail as well as institutional channels, its integrated nature of operations, bolstered by consistent capex to add more facilities including backward integration of its soya processing plant. The Group has integrated its poultry operations including breeder farms, hatcheries, contract farming, chicken processing and retail, enabling the Group to streamline its operations in line with industry trends. ICRA also notes the consistent growth in the overall scale of the Group with revenue growth in FY2023 at a CAGR of ~13% over the past five years, which is also spread across a diverse product portfolio of live bird sales in the wet market, processed and frozen chicken, poultry feeds, hatchable eggs, etc. The Group is consistently undertaking debt-backed capex to scale up its supply with a fresh hatchery and breeder farm. Moreover, ICRA expects the margins to improve in the long-term with the recent capex to backward integrate its operations into a soya extraction plant, which will be operating for a full year from FY2024. ICRA also favourably factors in the extensive experience of the promoters in the poultry industry and the established relationships of the Group with its clients and local farmers.

The rating, however, is constrained by the Group's increasing debt levels, which has resulted in weakening of coverage indicators further exacerbated by subdued realisations in FY2023 and a delay in commissioning of the soya plant. While the impact of the capex is expected to play out in the medium to long-term, but in the short-term, it is expected to exert pressure on the coverage indicators since the ramp up of capacity utilisation and returns will take time. The rating also continues to be constrained by high geographic concentration risk with the entire operation being limited in and around Chikmagalur district of Karnataka. Any adverse event or a disease outbreak may adversely impact the overall production levels. The ratings are further constrained by the volatility in the cost of production largely driven by movements in prices of the key raw materials, soya bean and maize. ICRA also notes the working capital intensive nature of operations accentuated by inherent volatility in raw material prices and limited shelf life of the Group's products. Although the Group has some flexibility in converting its live birds into processed or frozen chicken with a higher shelf life.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group's overall scale will continue to grow, and its enhanced integration will enable it to improve its return metrics gradually.

Key rating drivers and their description

Credit strengths

Experienced promoters with established relationships with stakeholders in its area of operations – The Group benefits from the more than two decades of its promoter’s experience in the poultry industry. The Group and its promoters enjoy goodwill among local farmers and customers in and around the district of Chikmagalur. The Group also enjoys established relationships with its institutional clients in Karnataka, as well as those from Goa, Tamil Nadu and Kerala.

Integrated poultry operations with diverse product mix; recent addition of soya mill improved cost structure and quality of DOC – The Group has an integrated range of operations from parent bird breeding and hatchery to processing and own retailing. Thus, the Group has a diverse product mix with revenues coming from live birds, processed and frozen chicken (which together formed ~82% of its total revenue in FY2023 over ~79% in FY2022), poultry feed, hatchable eggs, breeder birds, etc. The sales and distribution are supported by an established retail network and institutional sales channel in Chikmagalur, nearby states and exports market (mainly Bhutan). Moreover, the Group sees significantly higher sales from its processed and frozen chicken segment (44.1% and 48.4% in FY2022 and FY2023, respectively) than its peers. Given the flexibility to process a large share of live birds, the Group remains partly insulated from steep decline in demand prospects or periods of high cost of production, which can depress contribution margins. The Group, moreover, has recently set up a soya extraction plant with a total production capacity of 25,500 MT per annum, for manufacturing de-oiled cakes (DOCs) for the Group’s in-house consumption. The soya extraction plant is producing better quality soya DOC, and has further aided in better Feed Conversion Ratio (FCR), lower mortality and slight reduction in feed costs. The company has also generated additional revenue from the sale of crude edible oil. ICRA notes that there was a delay of 4-5 months in the commissioning and stabilising of the plant.

Ongoing capex undertaken to scale up operations – The Group is undertaking further capex for additional capacity in the form of a fresh hatchery and a breeder farm. The hatchery and breeder farms, both backed by debt, are expected to commence operations by the end of FY2024 and H1 FY2025, respectively. Ongoing capex will result in increase in turnover from FY2025 and will start generating returns as well. However, currently, the debt-backed capex, which is not generating any returns, is resulting in weak coverage indicators and moderation in RoCE.

Credit challenges

Moderation in profitability and debt coverage indicators – The Group’s profitability at a consolidated level declined to 8% in FY2023 over 10.6% in FY2022. The moderation in margins was largely on account of subdued realisations in FY2023, particularly in the second half of the fiscal. The margins were further adversely impacted by a higher cost of production in FY2023 due to elevated maize prices. Further, delay in commencement of the soya processing unit resulted in delayed improvement in feed costs, FCR and mortality rates, which is now reflecting in the current fiscal. However, ICRA notes that realisations have improved in the current fiscal and with stable feed costs, the margins are expected to improve in FY2024.

High geographical concentration risk – The entire vertically integrated operations of the Group are largely concentrated in the limited region of Chikmagalur and its nearby districts in Karnataka. While ICRA notes that the Group enjoys a strong market position, any adverse turn of natural events or any disease outbreaks in the region, will impact the Group’s operations.

Margins remain exposed to volatile feed prices; inherent risks in poultry business – The feed cost in the poultry sector is one of the key cost heads and constitutes ~70% of the total cost of production. The feed cost comprises several ingredients, but the primary raw material is soya DOC and maize. The prices of maize in FY2023 have been extremely volatile and remained elevated in the second half of FY2023. The high raw material prices resulting in significantly high cost of production, further resulted in weak or negative contribution margins during those periods.

Working capital intensive operations led by high inventory levels – The operations of the company are working capital intensive (NWC/OI of 28% in FY2023 against 25.9% in FY2022, at a consolidated level), which have been accentuated in recent times amid volatile raw material prices and increased inventory levels that LFL stocked at higher than normal volumes, which

it procured at low cost. While there is limited credit period offered and received, The Group’s working capital is driven by its high inventory days, which increased to 123 days in FY2023 over 120 days in FY2022. The company’s inventory requirements vary in line with the procurement and processing season of its commodities, i.e., soya bean and maize. Moreover, the recently commenced soya extraction plant has also necessitated high working capital requirements, particularly for holding soya bean as well as soya DOC.

Inherent risks in poultry business – The poultry industry is exposed to diseases such as avian influenza (bird flu) outbreaks and the industry has also demonstrated cyclical and seasonality. Further, the poultry industry is fragmented with intense competition leading to pressure on pricing and margins.

Liquidity position: Adequate

The Group’s liquidity is adequate, supported by free cash balances of ~Rs 19 crore as on March 31, 2023, on a consolidated basis. The liquidity is further aided by moderate cushion of ~Rs. 15 crore in its cash credit limits in the past 12 months. The company is further planning to enhance its limits, which will provide additional flexibility. While there are significant repayments of Rs. 20.8 crore and Rs. 23.3 crore in FY2024 and FY2025, respectively, the same are expected to be covered by the projected net cash accruals.

Rating sensitivities

Positive factors - ICRA could upgrade LLF’s rating if there is substantial growth in revenues while improving operating margins and liquidity. Specific credit metrics that could lead to a rating upgrade include TD/OPBIDTA being lower than 2.3 times, on a sustained basis.

Negative factors - Negative pressure on LLF’s rating could arise if there is a continued decline in earnings or deterioration in liquidity. Further, higher than envisaged debt-funded capex or any major withdrawals, resulting in deterioration of coverage indicators may also trigger a downgrade. Specific credit metrics that could lead to a rating downgrade include DSCR below 1.5 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Life Line Hatcheries (LLH) was founded by Mr. K. Kishore Kumar Hegde in 1995 after the parent company Life Line Feeds India Pvt. Ltd. (LLF) was founded in 1992. LLF is one of the leading poultry companies operating in the broiler segment in Karnataka with its entire operational set up concentrated in Chikmagalur district. In 1985, the promoters started an animal feed distribution dealership through the company, ‘Om Traders’. The company later added table eggs and day-old chicks in its product portfolio. Later, the promoter entered into animal feed manufacturing under the brand name, ‘Nandan’, followed by poultry breeder farming in 1998. Thereafter, the company ventured into value-added products such as processed and frozen chicken, which were sold through the retail chain brand, ‘Life Line’s Tender Chicken’.

LLF’s operations are vertically integrated, with infrastructure facilities ranging from a feed mill, a processing facility, four hatcheries (through LLH), 12 breeder farms, 44 retail outlets, and more than 500 broiler farms.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	480.0	578.0
PAT	19.8	10.6
OPBDIT/OI	10.6%	8.0%
PAT/OI	4.1%	1.8%
Total outside liabilities/Tangible net worth (times)	1.7	2.1
Total debt/OPBDIT (times)	3.0	4.6
Interest coverage (times)	4.4	3.5

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Oct 31, 2023	Jul 15, 2022		
1 Term Loans	Long term	29.50	19.00	[ICRA]BBB(Stable)	[ICRA]BBB(Stable)		

Source: Firm; Amount in Rs crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based - Term Loan	Simple

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	Term Loans	FY2023	NA	March 2032	29.50	[ICRA]BBB(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	Ownership	Consolidation Approach
Life Line Feeds India Pvt.	NA*	Full consolidation
Life Line Hatcheries	NA**	Full consolidation

*Parent company

**Promoter proprietor firm

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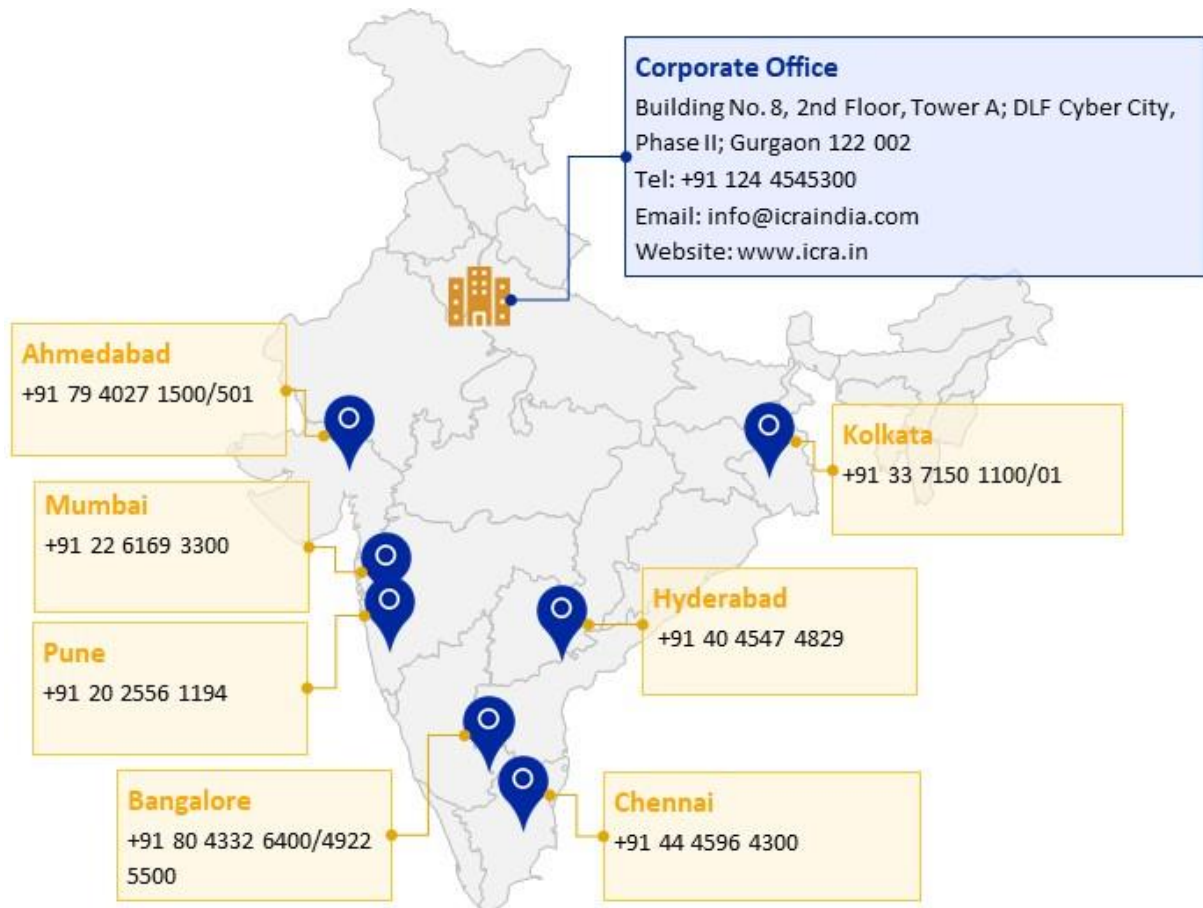
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