December 07, 2023

CPF (India) Private Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term Loans	224.82	131.22	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Short-term – Fund based	910.00	960.00	[ICRA]A3; upgraded from [ICRA]A4+
Long-term – Unallocated	42.94	86.54	[ICRA]BBB- (Stable); upgraded from [ICRA]BB+ (Stable)
Total	**1,177.76**	**1,177.76**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in ratings for the bank lines of CPF (India) Private Limited (CPFIPL/the company) considers the significant reduction in debt and improvement in liquidity following the sizeable equity infusion of Rs. 595.0 crore in H1 FY2024 by Charoen Pokphand Foods Public Company Limited, Thailand (CP Foods) (ultimate parent company) through CPF Investment Limited (parent), and ICRA's expectation that the company's liquidity position would remain adequate in the near to medium term. As against Rs. 1,119.5 crore as on March 31, 2023, CPFIPL's overall debt levels (including lease liabilities) reduced to Rs. 516.0 crore[1] as on September 30, 2023. With reduction in short-term debt, CPFIPL's buffer in working capital limits as against sanctioned lines has also improved and stood at Rs. 800.0 crore as on September 30, 2023[2]. The lower debt levels along with anticipated performance improvement supported by cost optimisation and higher proportion of revenues from margin accretive segments are likely to support the company's financial risk profile. However, the extent of improvement in accruals and sustenance of the same remain to be seen.

The ratings also positively factor in the healthy operational and financial support enjoyed by CPFIPL from CP Foods through its wholly owned subsidiary CPF Investment Limited. Apart from periodic technological inputs, CPFIPL has received regular equity infusion from the parent, and it is likely to continue going forward as well, as and when required. The parent has infused ~Rs. 2,100 crore equity into the company since FY2013. The ratings also consider the company's diversified revenue base and its established presence in the domestic poultry and aqua businesses. However, the company remains concentrated in South India and its revenues/margins are vulnerable to risks arising from disease outbreaks (both in the poultry and aqua division) and the inherent cyclicality in the poultry industry.

Key rating drivers and their description

Credit strengths

Strong financial and operational support as part of the Thai-based CPF Group – The company is a wholly owned subsidiary of CPF Investment Limited, which in turn is a wholly owned subsidiary of CP Foods, Thailand. The ultimate parent is an established global player in livestock and aquaculture businesses, spread across 17 countries, with exports to about 40 countries and consolidated revenues of close to Rs. 1,50,000 crore in CY2022. Apart from periodic technological inputs, CPFIPL has received regular equity infusion from the parent, and it is likely to continue going forward as well, as and when required. The parent has infused ~Rs. 2,100 crore equity into the company since FY2013 for CPFIPL's business requirements including growth, capex

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[1] *Gross debt comprises bank borrowings of Rs. 362.5 crore and lease liabilities of Rs. 153.5 crore. The company also had unencumbered cash and balance of Rs. 36.2 crore as on September 30, 2023.*

[2] *CPFIPL's short-term working capital facilities are entirely unsecured in nature*

and loss funding, the latest of which was Rs. 595.0 crore in H1 FY2024. CPFIPL also enjoys healthy financial flexibility and lender comfort by virtue of its parentage.

Reduction in debt levels and improvement in liquidity position – CPFIPL's debt has reduced in the last few months following the equity infusion and consequent reduction in short-term borrowings in H1 FY2024. As against Rs. 1,119.5 crore as on March 31, 2023, CPFIPL's overall debt levels (including lease liabilities) reduced to Rs. 516.0 crore as on September 30, 2023. With reduction in short-term debt, CPFIPL's buffer in working capital limits as against sanctioned lines has also improved and stood at Rs. 800.0 crore as on September 30, 2023. ICRA expects CPFIPL's liquidity to remain adequate over the medium term, for meeting its operational and financial commitments.

Diversified revenue base; established presence in the Indian shrimp feed and poultry segments – The company's revenues are diversified across its aqua (~60% of its revenues in FY2023, wherein the company primarily sells shrimp feed, processed shrimp and shrimp seed) and poultry businesses (~40% of the revenues in FY2023, wherein the company primarily sells broilers, broiler feed, processed chicken and has Quick Service Restaurant (QSRs)). The diversification mitigates risks arising from loss of revenues to competition in a particular segment, to an extent. Further, the company remains one of the leading shrimp feed players in the country and is an established player in poultry as well.

Credit challenges

Operating losses in FY2023 and H1 FY2024 – The company's revenues declined by ~9% in FY2023 and ~19% in H1 FY2024 on an annualised basis to Rs. 3,574.3 crore and Rs. 1,445.3 crore respectively, primarily stemming from reduction in broiler/broiler feed sales, exit of fish feed business and lower shrimp seed sales. The company, as a strategy, has decided to exit the volatile and seasonal broiler business and instead focus on processed chicken and food products in its poultry division. However, the incremental revenues from the focus areas did not adequately compensate for the lost revenues in the broiler business. Further, in the aqua division, the company exited the fish feed business because of relatively low margins in the product. However, the global environment for shrimp products was gloomy and did not adequately compensate for the loss in revenues from the fish feed business in FY2023 and H1 FY2024. The lower capacity utilisation, relatively high fixed costs and subdued market environment for shrimp products impacted margins in H1 FY2024, while FY2023 margins were in addition impacted by higher raw material prices. As a result, the company reported operating losses of Rs. 69.4 crore in FY2023 and Rs. 165.6 crore in H1 FY2024 respectively. The performance is expected to improve in the near to medium term supported by cost optimisation and higher proportion of revenues from margin accretive segments. However, the extent of the improvement in accruals remains to be seen.

Vulnerable to movement in raw material prices and exposed to inherent risks of disease outbreaks and inherent cyclicality – Akin to other poultry and aqua players, CPFIPL is susceptible to risks arising from potential outbreak of Avian influenza (bird flu). Shrimp farms are also vulnerable to disease outbreaks, and this can impact the demand for shrimp feed for specific time periods. Further, CPFIPL's operating margins also remain vulnerable to the inherent cyclicality in the poultry industry, although increase in proportion of revenues from the relatively stable HoReCa[3]/QSR segment within poultry, could mitigate the risk to an extent going forward.

High geographic concentration of CPFIPL's business from South India – The company continued to derive over 80% of its poultry revenues from Andhra Pradesh, Karnataka, Telangana, and Tamil Nadu and over 50% of its total revenues from South India in FY2023. This exposes the company to region-specific risks.

Liquidity position: Adequate

CPFIPL's liquidity position is adequate supported by an available buffer of Rs. 800.0 crore[4] as against sanctioned working capital limits, as on September 30, 2023. Further, CPFIPL's parent remains committed to extend timely and adequate financial support

[3] *Hotels, Restaurants and Catering establishments*

[4] *CPFIPL's short-term working capital facilities are entirely unsecured in nature*

to the company, as and when required. In addition, the company had an unencumbered cash and bank balances of Rs. 36.2 crore as on September 30, 2023. In relation to these sources of cash, CPFIPL has term loan repayment obligations of Rs. 49.9 crore in H2 FY2024, Rs. 92.3 crore in FY2025 and Rs. 30.7 crore in FY2026 on its existing loans, apart from the minimal maintenance capex.

Rating sensitivities

Positive factors – ICRA could upgrade the company's ratings with material and sustainable improvement in earnings and debt coverage metrics.

Negative factors – Negative pressure on ratings could emanate if the operating performance does not improve significantly, leading to an increase in debt levels or weakening of liquidity position. Further, weakening in the parent's credit profile or CPIPL's operational/financial linkages with the parent could exert negative pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: CPF Investment Limited (which is a wholly owned subsidiary of CP Foods, Thailand). We expect CPFIPL's parent to extend financial support to CPFIPL, as and when required. There also exists a track record of the parent having extended financial support to CPF Investment Limited in the past.
Consolidation/Standalone	The ratings are based on the consolidated financial profile of the company.

About the company

CPFIPL is primarily involved in sale of poultry and aqua products for domestic markets. The aqua division (wherein the company primarily sells shrimp feed, processed shrimp and shrimp seed) accounted for ~60% of sales, while the poultry division (wherein the company primarily sells broilers, broiler feed, processed chicken and has QSRs), constituted ~40% of the FY2023 revenues. The company is a subsidiary of CPF Investment Limited (which in turn is a wholly owned subsidiary of CP Foods, Thailand). Apart from CPFIPL, the Group has interests in other companies in India—all involved in food and food processing. One of the companies manufactures aqua feed similar to CPFIPL, but for the Tamil Nadu market, where CPFIPL have only minimal presence. The other Indian entities, except the aqua feed company, are relatively smaller in scale compared to CPFIPL.

Key financial indicators

Audited	FY2022	FY2023*
Operating income	3,978.9	3,574.3
PAT	-362.1	-147.2
OPBDIT/OI	-3.0%	-1.9%
PAT/OI	-9.1%	-4.1%
Total outside liabilities/Tangible net worth (times)	1.4	0.9
Total debt/OPBDIT (times)	-9.4	-16.1
Interest coverage (times)	-1.6	-0.8

*Amount in Rs crore; Source: Company, ICRA Research; Financial ratios in this document are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; total debt includes lease liabilities; * Represents standalone numbers; standalone constitutes ~98% of the consolidated revenues*

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 Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
					Dec 07, 2023	Mar 31, 2023	May 05, 2022	May 03, 2021	-
1	Term Loans	Long term	131.22	131.22	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	[ICRA]BBB- (Stable)	-
2	Fund based	Short term	960.00	-	[ICRA]A3	[ICRA]A4+	[ICRA]A3	[ICRA]A3	-
3	Unallocated	Long term	86.54	-	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BBB- (Negative)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Term Loans	Simple
Short Term – Fund based	Simple
Long Term – Unallocated	NA

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	FY2016	10.55%	FY2026	131.22	[ICRA]BBB- (Stable)
NA	WCDL/STL	NA	NA	NA	960.00	[ICRA]A3
NA	Unallocated	NA	NA	NA	86.54	[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
Lotus Aquaculture Lanka (Private) Limited	75.0%	Full Consolidation
Andhra Pradesh Broodstock Multiplication centre Private Limited	75.0%	Equity Method
CP Aquaculture (India) Private Limited	12.5%	Equity Method

Source: Company

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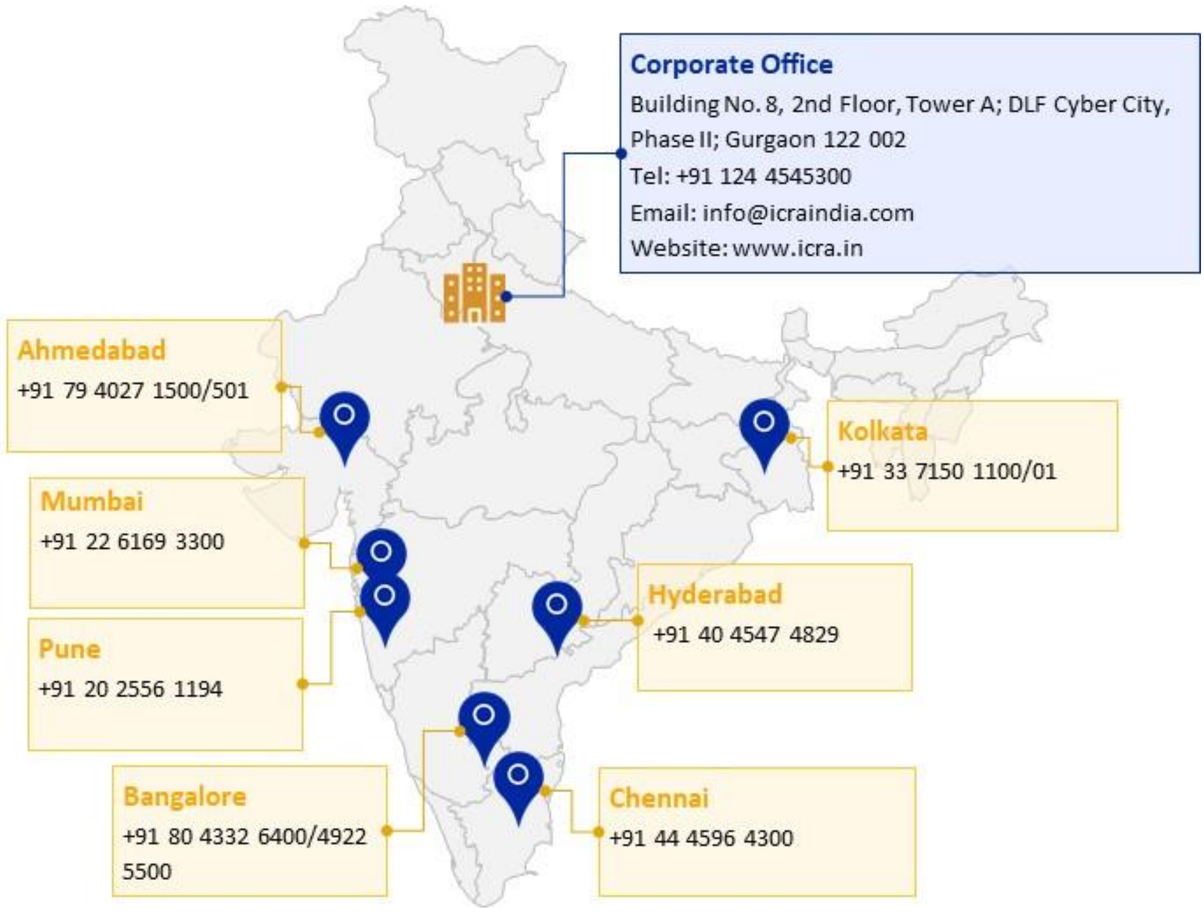

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