January 05, 2024

Premium Chick Feeds Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Fund-based Limits	340.00	370.00	[ICRA]BBB(Stable)/[ICRA]A3+; reaffirmed
Short-term – Non-fund Based Limits	10.00	-	-
Long-term/ Short-term – Fund-based Limits – Pledge Loans	15.00	-	-
Long-term – Term Loan	32.26	27.26	[ICRA]BBB(Stable); reaffirmed
Total	**397.26**	**397.26**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Premium Chick Feeds Pvt. Ltd.'s (PCFPL) established market position with healthy market share in the poultry industry, its sizeable scale of operations, diversified geographic presence and well-integrated operations across the broiler industry value chain. The ratings also take into consideration the extensive experience of PCFPL's promoters of more than three decades in this business. The company runs integrated poultry operations, including breeder farms, hatcheries, nutraceutical plants and contract farming, enabling it to streamline its operations in line with industry trends. Moreover, PCFPL has set up a chicken processing plant in Maharashtra, as part of its forward integration strategy, which is expected to support the growth and improvement in margins over the medium term.

The ratings are, however, constrained by the exposure of PCFPL's financial performance to the inherent cyclicality in the poultry industry, wherein disease outbreaks, climatic conditions or cost inflation can adversely impact revenues and margins. Moreover, PCFPL's revenues are concentrated on the live bird segment vis-à-vis its peers, a segment where margins have remained low and volatile due to the commoditised nature of the product. However, the company's large scale of operations and backward integrated operations mitigates this risk to an extent. PCFPL's profit margins are vulnerable to adverse movements in its broiler realisations vis-à-vis prices of key raw materials (soya bean and maize), as also demonstrated by volatility in operating margins in recent years. The company's OPM remained lower at 1.3% in FY2023 owing to lower realisation, Nonetheless the margins improved in H1 FY2024 at ~7.3% supported by strong demand and healthy realisation. However, the sustenance of same remain to be seen over the near to medium term. The rating also factors in the leveraged capital structure and moderate debt protection metrics owing to volatility in earnings profile and reliance on debt, given the working capital-intensive nature of operations and capex undertaken in recent years.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will generate higher accruals in the near to medium term aided by steady volumetric growth, supporting its financial and liquidity profile.

Key rating drivers and their description

Credit strengths

Established operational track record of company and extensive experience of its promoters in the poultry businesses – PCFPL was promoted by Mr. Girish Kolwankar, Mr. Shyam Dhawan and Mr. Neil Dalgado, first-generation entrepreneurs, in 1991. The company has a strong brand name aided by a track record of about three decades.

Well-integrated presence across value chain – PCFPL enjoys established relationships with a large number of contract farmers across the country, with access to latest technology in poultry breeding as well as in-house feed production capabilities and nutraceutical facility. Moreover, the company has recently set-up a chicken processing plant in Maharashtra, as part of its forward integration strategy, which is expected to support the growth and improvement in margins over the medium term.

Large scale of operations leads to scale benefits – The company is the second largest domestic integrated player in the poultry industry with healthy market share in broiler sales. PCFPL has a large scale of operations (~Rs. 5,852.9 crore in FY2023 and Rs. 3,077.7 crore in H1 FY2024) across 11 states in the country. Its diversified and sizeable scale of operations mitigates the inherent risk of the poultry industry to an extent.

Credit challenges

Leveraged capital structure and moderate coverage metrics – PCFPL's leverage indicators have remained high on the back of the working capital-intensive nature of operations, mainly funded through external borrowings and creditors. The gearing and TOL/TNW stood at 1.8 times and 4.4 times, respectively, as on March 31, 2023. However, these metrics are expected to improve, going forward, supported by higher internal accrual generation and increase in the company's net worth position.

Profit margins vulnerable to price volatility and inherent cyclicality of the poultry industry – PCFPL's revenues are concentrated on the live bird segment vis-à-vis its peers, a segment where margins have remained low and volatile due to the commoditised nature of the product. Moreover, the margins in this segment could be impacted by any unfavorable climatic conditions or volatile raw material costs. Further, the poultry industry is fragmented with intense competition leading to pressure on pricing and margins.

Exposed to inherent industry risk of disease outbreak – The poultry industry is exposed to diseases such as avian influenza (bird flu) outbreaks. However, PCFPL's risk is partially insulated by its geographically diversified presence across many states.

Liquidity position: Adequate

The company's liquidity is adequate, supported by higher internal accrual generation in the current fiscal, cash balances of ~Rs. 28.4 crore and undrawn working capital limits of ~Rs. 20.8 crore as on November 30, 2023. PCFPL is estimated to generate fund flow from operations of Rs. 110-130 crore in FY2024, against repayment obligations of ~Rs. 17 crore and capex plans of ~Rs. 25-30 crore. Also, ~70% of the proposed capex will be funded by term loans and the balance through accrual generation. Given the continued volatility in chicken prices, there can be volatility in the company's earnings, as witnessed in the past. However, its liquidity profile will continue to be supported by accrual generation, available surplus and undrawn bank lines.

Rating sensitivities

Positive factors – The ratings could be upgraded, if the company demonstrates healthy revenue growth and a stable earnings profile, leading to improvement in capital structure and debt protection metrics, and strengthening of its liquidity profile. Specific credit metrics that could lead to an upgrade include TOL/TNW less than 1.8 times on a sustained basis.

Negative factors – Negative pressure on PCFPL's rating could arise if there is considerable decline in the company's accrual generation and/or stretch in the working capital cycle, or sizeable debt-funded capex, resulting in deterioration of its liquidity position and coverage metrics. Specific credit metric that could lead to a rating downgrade include DSCR below 1.6 times on a sustained basis.

Analytical approach

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

About the company

PCFPL was incorporated in 1991 as a poultry feed player. In 2001, the company commenced broiler farming operations in addition to its poultry feed business. The company is present in West Bengal, Assam, Andhra Pradesh, Odisha, Karnataka, Uttar Pradesh, Telangana, Tamil Nadu, and Maharashtra. PCFPL is led by Mr. Girish Kolwankar, Mr. Shyam Dhawan and Mr. Neil Delgado.

Key financial indicators (audited)

PCFPL - Standalone	FY2022	FY2023
Operating income	5191.2	5852.9
PAT	28.2	43.8
OPBDIT/OI	1.6%	1.3%
PAT/OI	0.5%	0.7%
Total outside liabilities/Tangible net worth (times)	4.2	4.4
Total debt/OPBDIT (times)	3.8	5.0
Interest coverage (times)	2.9	2.1

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	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
					January 5, 2024	Feb 14, 2023	-	-
1	**Fund Based Limits**	Long term/ Short Term	370.00	-	**[ICRA]BBB(Stable) [ICRA]A3+**	[ICRA]BBB(Stable) [ICRA]A3+	-	-
2	**Non-Fund Based Limits**	Short term	-	-	-	[ICRA]A3+	-	-
3	**Fund Based Limits - Pledge Loans**	Long term/ Short Term	-	-	-	[ICRA]BBB(Stable) [ICRA]A3+	-	-

4	**Term Loan**	Long term	27.26	27.26	**[ICRA]BBB(Stable)**	[ICRA]BBB(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term/Short Term - Fund Based Limits	Simple
Long Term-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	**Fund Based Limits**	NA	NA	NA	370.00	[ICRA]BBB(Stable)/[ICRA]A3+
NA	**Term Loan 1**	FY2021	NA	FY2029	25.26	[ICRA]BBB(Stable)
NA	**Term Loan 2**	FY2019	NA	FY2026	2.00	[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 – Not applicable

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About ICRA Limited:

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