August 02, 2024

Abis Proteins Private Limited: [ICRA]AA- (Stable)/[ICRA]A1+; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term/Short term – Non-fund based – Letter of Credit	74.90	[ICRA]AA- (Stable) /[ICRA]A1+; assigned
Short term – Fund based – Overdraft	0.10	[ICRA]A1+; assigned
Long term – Fund based – Proposed Term loans	325.00	[ICRA]AA- (Stable); assigned
Total	**400.00**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has consolidated the financials of Abis Proteins Private Limited (APPL), its parent 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. APPL has been formed as a forward integration arm of AEIPL to foray into the processed meat segment for which AEIPL will infuse the entire project equity and will supply live birds post commissioning. Besides significant operational and financial linkages, AEIPL and APPL share a common management, hence, a consolidated view has been taken to arrive at the ratings for these two entities.

The assigned ratings consider the large scale of operations and a dominant market presence of the IB Group in the poultry and related businesses, which is present in more than 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 (with a small scale at present), 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 and expand its scale of operations over the years. Moreover, sourcing of the poultry feed internally ensures better control over poultry feed costs, quality and availability. AEIPL has eliminated dependence on third-party feed plants by setting up own facilities in various locations in the recent years and is also increasing its own hatching capacity, which would render cost benefit and improve product quality and yield. AEIPL's 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 company has posted an above-average growth in its revenues in the recent years, as reflected by a compounded annual growth rate (CAGR) of ~20% between FY2020 and FY2024. In FY2024, its consolidated operating income grew by 15% on a YoY basis, supported by a robust growth in broiler birds sales volume by 27%. The consolidated operating margin improved to 10.0% in FY2024 from 5.5% in FY2023 on the back of softening of raw material costs and stable broiler realisations. In Q1 FY2025, AEIPL's standalone revenue grew by 12% on a YoY basis and the operating margin improved to 19.6% from 14.5% in Q1 FY2024, supported by healthy realisations. ICRA expects the company's healthy revenue growth and margin to sustain in FY2025.

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. The Group would remain exposed to the risks relating to execution of the large, planned capex within the budgeted cost and estimated timeframe, notwithstanding its demonstrated ability to successfully implement such projects in the past and limited funding risks due to adequate liquidity position and a track record of successful debt tie-up for capex, aided by strong financial flexibility. The Group has also embarked upon a project to enter the meat processing segment to improve forward integration and mitigate exposure to fluctuation in broiler prices as the shelf life of processed chicken is longer than broilers. However, it will remain exposed to the challenges associated with ramping up of sales from the new segment, post commissioning, given the low market size of processed meat in India and relatively price sensitive consumers in the country. Nonetheless, changing lifestyle and evolving eating habits augur well for the future growth of the segment.

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. However, the resilience of profitability in an industry downcycle, amid adverse movement in raw material prices or broiler realisations, would remain important from the credit perspective. 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

Dominant market presence of IB Group in the poultry and related businesses with 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 more than 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 72% of AEIPL's total sales in FY2024 was derived from the sale of live birds, followed by ~11% from soya and rice bran oil, ~10% 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, positively impacting revenues and cash accruals – The Group's consolidated operating income witnessed a CAGR of around 20% between FY2020 and FY2024, and is estimated to register a significant growth, going forward, driven by a consistent expansion of capacities and increasing market penetration across the country. Over 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 capex plan is aimed towards further expansion of its own infrastructure in and outside Chhattisgarh and cost reduction through increasing level of backward integration. AEIPL has already eliminated its dependence on third-party feed producers and is increasing its own hatching capacity. 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, are strengthening AEIPL's cost structure. The upcoming plant in Madhya Pradesh, with oil extraction, refinery and feed production facilities, will improve backward integration and diversify revenues further. Captive solar power plants and own packaging facilities installed by AEIPL would also reduce its operating costs. AEIPL 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 Group's scale of operation and material cost savings that would arise from the ongoing and planned capex are likely to enhance cash accruals, going forward.

Tie-up with Aviagen India for sourcing of grandparent day-old chicks strengthens operational profile – The IB Group has 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 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 volatility in broiler realisations and fluctuation in raw material prices – As inherent in the industry, the broiler realisations vary considerably across geographies and are impacted by the seasonality as well as local supply dynamics. 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. 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, which meets a portion of the inputs required to manufacture feeds, rendering the benefit of backward integration. However, 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. A sharp increase in the prices of maize along with some moderation in realisation resulted in a contraction of the Group's consolidated operating margin to 5.5% in FY2023 from 9.0% in FY2022. The same improved to 10.0% in FY2024, aided to some extent by softening of maize and soya prices and stable realisations. However, the Group's profitability will remain vulnerable to the movement in broiler realisations and feed prices.

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.

Large capex programme giving rise to project risks and sizeable debt service obligation – AEIPL is on the verge of completion of its previous capex programme and has embarked upon fresh capex of ~Rs. 1,250 crore, to be concluded over a period of around three years. The capex is to be funded by long-term borrowings of ~Rs. 1,040 crore and the balance by internal accruals. The capex includes feed plants and hatcheries in many locations and incremental grandparent and parent breeder facilities, to ensure adequate backward integration for the envisaged future growth in broiler farming. A portion of the term loans has already been tied up. The Group has also planned a capex of ~Rs. 500 crore in APPL to set up two plants in Andhra Pradesh and Maharashtra for producing processed chicken meat. The capacity of each of the plants will be ~12,000 birds per hour. The project will be funded by equity of Rs. 100 crore (out of which Rs. 55 crore has already been infused by AEIPL) and the balance by term loans, which are yet to be tied up. The company has already purchased land in Andhra Pradesh and has taken land in Maharashtra on a long-term lease. The plants are scheduled to be commissioned in September 2026. APPL has plans to set up more plants in other locations after stabilisation of the first two units. The Group's adequate liquidity, strong financial flexibility and a track record of successfully achieving financial closure for large capex in the past mitigate funding risks for the planned capex. However, execution of the planned 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.

Success of venture into the processed meat segment remains to be seen, given the low market size and price sensitive nature of the consumers – The Group has planned to foray into the processed meat segment, which is likely to mitigate its exposure to fluctuation in broiler realisations as the shelf life of processed chicken is longer than live birds. The changing lifestyle and evolving eating habits are likely to fuel the future growth of the segment. However, given a low market size of the processed meat industry in India at present and relatively price sensitive consumers in the country, the Group's ability to ramp up sales from the new segment, post commissioning, will remain a challenge.

Liquidity position: Adequate

The Group's liquidity position is likely to remain adequate. The consolidated cash flow from operations improved to ~Rs. 321 crore in FY2024 from ~Rs. 181 crore in FY2023, aided by improved operating margin and healthy revenue growth, despite increased working capital requirement on the back of significant scaling up of operations. Going forward, the cash flow from operations is likely to improve further. AEIPL incurred a capex of ~Rs. 740 crore in FY2024, and the consolidated annual capex, including the project cost for the meat processing plants, would remain in the range of Rs. 700-800 crore in the medium term. However, the Group's track record of achieving financial closure for large projects and healthy cash flow from operations ensure adequate fund availability for the pending capex. In addition, a significant buffer (more than Rs. 400 crore as on March 31, 2024) in working capital utilisation and healthy free cash and bank balances (~Rs. 76 crore as on March 31, 2024) are likely to keep the liquidity position of the consolidated entity adequate despite a significant debt repayment obligation of Rs. 200-260 crore annually till FY2026.

Rating sensitivities

Positive factors – Successful completion of the planned capex programme without any material time or cost overrun 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 revenues or profits, a significant weaking of the liquidity position, capital structure and debt coverage indicators. 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 APPL with its holding company AEIPL and AEIPL's joint venture, ASL, which are enlisted in Annexure-II

About the company

Abis Proteins Private Limited (APPL) was incorporated in May 2023 as a wholly-owned subsidiary of Abis Exports (India) Private Limited (AEIPL) to foray into the chicken meat processing business. AEIPL will sell broiler birds to APPL, and the latter will process the same and sell it in the market in various forms of branded chilled and frozen products like ready-to-cook meat, marinated cuts and more value-added products including sausages, burgers etc. Initially, APPL has planned to set up two units in Chittoor, Andhra Pradesh and in Aurangabad, Maharashtra. Each of the two plants will start with an initial capacity of 12,000 birds per hour. The initial capex for the two plants has been estimated at ~Rs. 500 crore, which is proposed to be funded by term loans of ~Rs. 400 crore and the balance by equity infusion. The plants are scheduled to be commissioned by September 2026. After stabilisation of the initial phase, APPL is likely to set up more plants in other locations.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	9168.6	10531.1
PAT	204.7	573.9
OPBDIT/OI	5.5%	10.0%
PAT/OI	2.2%	5.4%
Total outside liabilities/Tangible net worth (times)	1.1	1.0
Total debt/OPBDIT (times)	3.3	1.9
Interest coverage (times)	5.2	7.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Aug 02, 2024	-	-	-
1	**Non-fund based – Letter of Credit**	Long term/ short term	74.90	**[ICRA]AA- (Stable) /[ICRA]A1+**	-	-	-
2	**Fund based– Overdraft**	Short term	0.10	**[ICRA]A1+**	-	-	-
3	**Fund-based – Proposed term loans**	Long term	325.00	**[ICRA]AA- (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term/Short term – Non-fund based – Letter of Credit	Very simple
Short term – Fund based – Overdraft	Simple
Long term – Fund-based – Proposed term loans	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	Non-fund-based – Letter of Credit	-	-	-	74.90	[ICRA]AA- (Stable)/[ICRA]A1+
NA	Fund based– Overdraft	-	-	-	0.10	[ICRA]A1+
NA	Fund based – Proposed term loans	Proposed	-	Proposed	325.00	[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	APPL's Ownership	Consolidation Approach
Abis Exports (India) Private Limited (AEIPL)	APPL's holding company	Full Consolidation
Abis Sampoorna LLP (ASL)*	-	Full Consolidation

*Source: Company; *AEIPL's joint venture with Sampoorna Feeds Private Limited*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Kinjal Shah
+91 22 6114 3442
kinjal.shah@icraindia.com

Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Sovanlal Biswas
+91 33 7150 1181
sovanlal.biswas@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches