September 26, 2024

Japfa Comfeed India Private Limited: 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	195.00	170.00	[ICRA]A- (Stable); reaffirmed
Long-term, Fund-based-Cash Credit	100.00	0.00	-
Long-term Fund-based Working Capital/ Cash Credit	0.00	100.00	[ICRA]A- (Stable); reaffirmed
Short-term - Interchangeable	(100.00)	(100.00)	[ICRA]A2+; reaffirmed
Long-term - Interchangeable	(30.00)	0.00	-
Total	**295.00**	**270.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation considers Japfa Comfeed India Private Limited's (JCIPL) established position in the poultry feed business, and operational and financial support/ flexibility derived from its parent, Singapore-based Japfa Group, a leading industrial agri-food company in Asia. Benefitting from the strong parentage, the company has widened its feed manufacturing base and scaled up its business over the years. Unremunerative broiler realisation along with contraction in feed prices in FY2024 on a YoY basis resulted in a decline in the company's operating income and affected its profitability. However, the situation improved in Q1 FY2025 with recovery in broiler realisation. Improvement in JCIPL's top line and margins is expected in FY2025 on the back of better broiler realisation and stable raw material prices. JCIPL is in the process of commissioning all its ongoing projects, viz. aqua/shrimp feed plant, slaughtering house and breeding farm in H2 FY2025. If the company can successfully ramp up the operations of these facilities post commissioning, along with the cattle feed plant already commissioned in January 2024, the company's overall profitability would improve as they are more value accretive. The ratings also continue to positively factor in the company's comfortable capital structure and adequate liquidity position, given the equity infusion of Rs. 78 crore by the parent in FY2024.

The ratings, however, remain constrained by intense competition in the industry and vulnerability of JCIPL's profitability to volatility in prices of its key raw materials, maize and soya meal, which are driven by agro-climatic conditions and global demand and supply besides Government interventions in terms of setting the minimum selling prices (MSP), export-import policies, demand from other end-user sectors among others. 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 JCIPL. However, significantly higher revenue contribution from the poultry feed business renders stability to profit margins, to some extent. The ratings also factor in the moderate scale of operations of JCIPL's commercial poultry farming in an intensely competitive industry, coupled with high geographical concentration risk, evident from poultry operations, which are largely limited to western Maharashtra. JCIPL, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu). Although the ongoing projects are at an advanced stage of completion, any unanticipated delay in commissioning of the projects would have a bearing on the company's overall operational profile and would remain a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectations that despite volatility in margins and significant debt-funded capex, JCIPL will continue to benefit from its established position, strong parentage, and diversification initiatives, enabling it to report steady accrual generation, going forward.

Key rating drivers and their description

Credit strengths

Strong management, operational support and financial flexibility from the parent Group – JCIPL is a subsidiary of the Singapore-based Japfa Group, one of the largest integrated poultry players in Asia. The flagship company is the second-largest integrated poultry player in Indonesia with 16 feed mills, 78 breeding farms and 30 central hatcheries as on July 31, 2024. It has three major divisions, viz., poultry, cattle and aquaculture with the poultry division dominating the consolidated sales. The Group's presence across various countries and its diversification enable it to even out cyclicality in a specific region, to an extent. JCIPL benefits from operational and financial flexibilities for being a part of the Japfa Group.

Efforts to increase diversification in feed division and consolidate poultry business via forward integration, and foray into higher- margin products expected to provide stability to overall profitability – JCIPL has undertaken sizeable capex to increase diversification in the feed division by venturing into the cattle and aqua feed spaces. The major portion of this capex has been completed and commercial production of the cattle feed production plant has been commissioned in January 2024. The aqua feed project and the slaughterhouse are expected to commence in H2 FY2025. The slaughterhouse, once commissioned, will enable the company to grow its downstream segment, which in turn is expected to provide some stability to its inherently volatile poultry business. Further, JCIPL is setting up its own poultry breeding farm, which is expected to be commissioned in H2 FY2025. These efforts to diversify the feed division and consolidate the poultry division are expected to provide stability to JCIPL's overall profitability and help in scaling up its revenue

Comfortable capital structure and liquidity position – Despite a significant increase in debt levels over the past two fiscals, JCIPL's capital structure continues to remain comfortable (although moderated to some extent), as reflected by a gearing of 0.32 times as on March 31, 2024. The gearing and the liquidity of the company, which continue to remain adequate, are supported by the equity infusion of Rs. 20 crore and Rs. 78 crore in FY2023 and FY2024 respectively, by the parent. Sizeable debt availed to fund the ongoing capex impacted JCIPL's debt protection metrics in FY2024. Nonetheless, its gearing level is expected to remain comfortable and debt protection metrics are likely to improve over the medium term, aided by steady accretion to reserves. The same would be driven by improvement in broiler realisation, steady raw material prices and likely ramping up of operations of the projects profitably, which would be commissioned in H2 FY2025.

Credit challenges

Sizeable, ongoing debt-funded capex in feed and poultry businesses – JCIPL is at the final phase of completing the sizeable debt-funded projects to diversify its feed business, improve capacities, consolidate its poultry business and enable forward integration for supporting its future growth. The project execution and the funding risks remain limited as the project is in the advanced stage of completion and the entire debt has been tied up and the requisite equity has been infused. However, stabilising the plants, achieving desired operating parameters and cost efficiencies, and profitably ramping up of operations post commissioning would remain critical to its credit profile.

Profitability exposed to inherent volatility in the poultry business – In line with the nature of the industry, JCIPL's profitability remains exposed to the volatility in the poultry business, especially in case of any disease outbreak as well as the inherent seasonality in the industry. Broiler realisations vary considerably across geographies and are impacted by the seasonality as well as local supply dynamics. Volatility in broiler realisations has a bearing on the profitability of all integrators. This was also reflected by segmental losses in FY2024 on account of a decline in broiler realisations, which impacted the overall operating margins of the company in the fiscal. However, broiler realisations have recovered in Q1 FY2025 and the performance of the overall poultry segment is expected to improve in the current fiscal.

Moderate scale of operations of commercial poultry farming in intensely competitive industry with high geographical concentration – JCIPL operates in the highly fragmented and intensely competitive poultry industry, which is characterised by many small and medium-sized players. As the major part of JCIPL's poultry operations is limited to the western regions of India, JCIPL is exposed to high geographical concentration. Moreover, its poultry division continued to exhibit a moderate scale of operations in FY2024. Nonetheless, the ongoing capital expenditure aimed at adding capacity to the poultry division and expansion in the downstream poultry segment are expected to expand the division's scale of operations, to an extent.

Feed business remains exposed to volatility in maize and soya meal prices along with availability, which is driven by agro-climatic conditions and global demand-supply scenario – The raw material cost (soya and maize) is a major expense head of the company, and accounts for around 70% of its total cost. The prices of these commodities (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.

Liquidity position: Adequate

The liquidity profile of JCIPL remains adequate. The company's cash flow from operations turned negative in FY2024 due to losses suffered and increase in the working capital requirement. The same is expected to improve substantially in FY2025, driven primarily by the likely increase in the company's profitability. JCIPL has incurred capex of more than Rs. 160 crore in FY2024 and around Rs. 100 crore is likely to be incurred in FY2025. However, healthy cash flow from operations, equity infusion in FY2023 and FY2024 and tied-up debt ensure adequate fund availability for the pending capex. In addition, significant buffer (Rs. 100 crore as on March 31, 2024) in working capital borrowings and healthy free cash and bank balance of ~Rs. 110 crore as on March 31, 2024 are likely to keep the liquidity position adequate, given the debt repayment of ~Rs. 20 crore and ~Rs. 36 crore in FY2025 and FY2026, respectively. Moreover, JCIPL's status of being a part of the Japfa Group enhances its financial flexibility, as evident from the equity infusion of Rs. 20 crore and Rs. 78 crore by the parent in FY2023 and FY2024.

Rating sensitivities

Positive factors – The ratings could be upgraded, if the entity shows sustained growth in its revenue, coupled with improved margins, and exhibits improvement in return indicators, on a sustained basis.

Negative factors – The ratings could be downgraded, if there is a pressure on the company's liquidity and debt coverage indicators due to significant deterioration in its profitability indicators, or any significant cost/time overrun in the ongoing capex programme. Total Debt/OPBIDTA above 2.3 times, on a sustained basis, may also warrant a rating downgrade.

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 considered the standalone financials of JCIPL

About the company

JCIPL, established in 1995, is a 100% step-down subsidiary of the Singapore-based Japfa Group with the major portion of the parent's revenues derived from Indonesia. JCIPL is involved in poultry feed manufacturing, broiler breeding, rearing, sale of live broiler birds, sale of day-old chicks, hatching eggs and has also ventured into the chilled chicken and meat segment. The company is based out of Pune, with poultry breeding operations concentrated mainly in western Maharashtra, while its feed mills are in the western, eastern, northern and southern parts of India. JCIPL operates five feed mills (excluding cattle feed mill, which was commissioned in January, 2024) with an annual production capacity of 4,56,000 MT as on March 31, 2024. The company has its own parent stock breeding farms, while commercial growing farms are on contract basis with around 150 farmer partners across Maharashtra.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	1,165.9	1,062.2
PAT	2.0	(8.0)
OPBDIT/OI	1.0%	0.1%
PAT/OI	0.2%	-0.8%
Total outside liabilities/Tangible net worth (times)	0.6	0.6
Total debt/OPBDIT (times)	3.5	198.2
Interest coverage (times)	9.1	0.6

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					
				FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	September 26, 2024	Date	Rating	Date	Rating	Date	Rating
Term loans	Long term	170.00	**[ICRA]A- (Stable)**	**27-Jul-23**	**[ICRA]A- (Stable)**	**29-Sep-22**	**[ICRA]A- (Stable)**	**27-Jul-21**	**[ICRA]A- (Stable)**
Cash Credit	Long term	-	-	**27-Jul-23**	**[ICRA]A- (Stable)**	**29-Sep-22**	**[ICRA]A- (Stable)**	**27-Jul-21**	**[ICRA]A- (Stable)**
Working Capital/ Cash Credit	Long term	100.00	**[ICRA]A- (Stable)**	-	-	-	-	-	-
Interchangeable^	Long term	-	-	**27-Jul-23**	**[ICRA]A2+**	**29-Sep-22**	**[ICRA]A2+**	-	-
Interchangeable^	Short term	(100.00)	**[ICRA]A2+**	**27-Jul-23**	**[ICRA]A- (Stable)**	**29-Sep-22**	**[ICRA]A- (Stable)**	**27-Jul-21**	**[ICRA]A2+**

^ sublimit within cash credit limits

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term – Fund-based Working Capital/ Cash Credit	Simple
Short Term – Interchangeable	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 Loan**	2023	7-9%	2030	170.00	[ICRA]A- (Stable)
NA	**Working Capital/ Cash Credit**	NA	NA	NA	100.00	[ICRA]A- (Stable)
NA	**Interchangeable Limits (Short Term)**	NA	NA	NA	(100.00)	[ICRA]A2+

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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