December 20, 2024

Life Line Feeds India Pvt. Ltd.: Ratings upgraded to [ICRA]BBB+ (Stable)/[ICRA]A2; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term –Fund-based –Term Loan	74.97	43.26	[ICRA]BBB+(Stable); upgraded from [ICRA]BBB(Stable)
Long-term/ Short-term –Fund-based –Cash Credit/WCDL	100.00	140.00	[ICRA]BBB+(Stable)/ [ICRA]A2; upgraded from [ICRA]BBB(Stable)/ [ICRA]A3+; assigned for enhanced amount
Long-term/ Short-term-Unallocated Limits	-	41.71	[ICRA]BBB+(Stable)/ [ICRA]A2; upgraded from [ICRA]BBB(Stable)/ [ICRA]A3+; assigned to enhanced amount
Total	**174.97**	**224.97**	

**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 Life Line Hatcheries (LLH), collectively referred to as the Group, given their operational synergies, financial linkages, common promoters and the corporate guarantee extended by LLF to LLH.

The rating upgrade reflects the Group's improved credit profile with sharp expansion in margins and earnings in FY2024 on the back of better operational efficiency, leading to improvement in debt metrics and expectations that the same will sustain, going forward. The Group's operating margin improved to 13.3% in FY2024 from 10.4% in FY2023 on the back of improved operating metrics such as feed conversion ratio (FCR) apart from the benefits from commencement of in-house soya extrusion plant and procurement of better quality raw materials. Moreover, the Group's own hatchery has commenced operations in July 2024 while breeder farms with capacity of 1 lakh birds are expected to be operational from April 2025. This is expected to support the company's revenue growth over the medium term. The Group clocked a ~12.4% revenue growth in FY2024 on the back of a healthy increase in processed meat and frozen meat sales. The Group is expected to continue to scale up sales from these segments and is likely to register a growth of more than 10% in the current fiscal as well. A healthy growth in the scale of operations and increased earnings are expected to result in improved financial profile, as indicated by expected total debt / OPBITDA of less than 2.3 times and DSCR of over 2.0 times, going forward.

The rating factors in the Group's healthy and diversified revenue streams across retail as well as institutional channels as well as its integrated operations, which are strengthened by consistent capex initiatives including backward integration to soya extrusion. The integrated operations include breeder farms, hatcheries, contract farming, chicken processing and retail, enabling the Group to streamline its operations in line with industry trends. ICRA also favourably factors in the extensive experience of the promoters in the poultry industry and established relationships of the Group with its clients and local farmers.

The rating is, however, constrained by the susceptibility of the Group's earnings to fluctuations in realisations and cost of production, largely driven by movements in prices of the key raw materials, soya bean and maize. Any adverse development or a disease outbreak may adversely impact the overall production levels. 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. Nevertheless, the Group has flexibility in converting its live birds into processed or frozen meat with a higher shelf life. The rating also considers high geographical concentration risk as the entire operation is limited in and around Chikmagalur district of Karnataka.

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 help improve its earnings and debt metrics.

Key rating drivers and their description

Credit strengths

Experienced promoters with established relationships with stakeholders in its area of operations – The Group benefits from more than two decades of experience of its promoter 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, Goa, Tamil Nadu and Kerala.

Integrated poultry operations with diverse product mix; addition of soya mill improved cost structure and quality of DOC – The Group's operations are vertically integrated, encompassing segments from parent bird breeding and hatchery to processing and retailing. Thus, the Group has a diverse product mix with revenues coming from live birds, processed and frozen chicken (which together accounted for ~81% of its total revenue in FY2024 against ~76% in FY2023), 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 derives a healthy share of sales from its processed and frozen chicken segment (51% and 46% in FY2024 and FY2023, respectively). Given the flexibility to process a large share of live birds, the Group is partly insulated from a steep decline in demand or periods of subdued realisations, which can depress contribution margins. Further, the Group has set up a soya extrusion plant in FY2023 with a total production capacity of 25,500 MT per annum for manufacturing oiled cakes for the Group's in-house consumption. The soya extrusion plant is producing better quality soya oiled cakes and has further aided in better feed conversion ratio, lower mortality and slight reduction in feed costs. The company has also generated additional revenue from the sale of crude edible oil.

Healthy financial profile – The Group's financial profile has improved with increase in the operating margins to 13.3% in FY2024 from 10.4% in FY2023 on account of better revenue mix and emphasis on cost optimisation in the form of backward integration through soya extrusion plant, smart procurement strategies, etc., which has resulted in improved feed conversion ratio. The coverage metrics also improved with DSCR and interest cover of 1.8 times and 4.8 times, respectively, in FY2024 (DSCR of 1.4 times and Interest cover of 4.3 times in FY2023). The same are also expected to improve over the medium term, with likely sustenance of healthy margins and moderation in debt levels in the absence of any major debt funded capex (post commencement of breeder farms in FY2025).

Credit challenges

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

Margins remain exposed to volatile feed prices – 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 de-oiled cakes (DOC) and maize. The prices of raw materials (maize and soya seeds) remain volatile on account of fluctuations in domestic production owing to agro-climatic conditions, international prices, Government regulations, and demand from the animal husbandry sector, which is susceptible to seasonality. The Group's profitability, like other entities in the poultry business, will remain vulnerable to the movement in feed prices. Further, volatility in broiler realisations, due to the seasonal nature of demand/supply of poultry products in India, has a bearing on the profitability of all integrators. However, flexibility in converting into processed meat and stocking up of raw materials during harvesting season aided the Group in recording healthy operating margins even during periods of stress in the industry.

Working capital intensive operations, led by high inventory levels – The operations of the company are working capital intensive, which remains high amid volatile raw material prices and elevated inventory levels. While there is limited credit period offered and received, the Group's working capital is driven by its high inventory holding (134 days as on March 31, 2024 and 136 days as on March 31, 2023). 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 soya extrusion plant has also necessitated high working capital requirements in the recent years.

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 cyclicality 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 and bank balances of ~Rs. 52 crore as of September 2024, expected retained cash flow of Rs. 40-45 crore in FY2025, and moderate cushion of ~Rs. 19 crore in cash credit limits in the past 12 months ending in September 2024. The company is in the process of enhancing its limits by Rs. 20 crore, which will provide additional flexibility. Against these sources of funds, the Group has repayment obligations of Rs. 16-18 crore in the next 12 months and capex plans of Rs. 20-25 crore.

Rating sensitivities

Positive factors – The rating could be upgraded if the Group demonstrates a healthy revenue growth while maintaining its earnings profile, leading to an improvement in capital structure and debt protection metrics, and strengthening of its liquidity profile.

Negative factors – Pressure on the rating may arise from any sharp deterioration in revenue or earnings or a weakening of the liquidity position. Further, any major debt-funded capex or any higher capital withdrawal, resulting in a deterioration of the coverage indicators, may also trigger a rating downgrade. Specific credit metrics that may lead to a rating downgrade include a weakening of DSCR below 1.8 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 considered the consolidated view of LLF and LLH, given the operational synergies, financial linkages, common promoters and the corporate guarantee extended by LLF to LLH

About the company

Life Line Feeds India Pvt. Ltd. was founded by Mr. K Kishore Kumar Hegde 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 to its product portfolio. Later, the promoter entered 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, two hatcheries (through LLH), 12 breeder farms, 48 retail outlets, and more than 650+ broiler farms.

Key financial indicators (audited)

Consolidated (Group)	FY2023	FY2024
Operating income*	520.7	585.5
PAT	21.4	30.1
OPBDIT/OI	10.4%	13.3%
PAT/OI	3.9%	5.1%
Total outside liabilities/Tangible net worth (times)	2.1	2.0
Total debt/OPBDIT (times)	3.7	3.2
Interest coverage (times)	4.3	4.8

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

Standalone	FY2023	FY2024
Operating income	585.9	632.8
PAT	20.0	24.6
OPBDIT/OI	9.3%	10.1%
PAT/OI	3.4%	3.9%
Total outside liabilities/Tangible net worth (times)	1.7	1.6
Total debt/OPBDIT (times)	2.8	2.8
Interest coverage (times)	4.8	5.0

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

Status of non-cooperation with previous CRA

CRA	Status	Date of Release
CRISIL	CRISIL B/Stable/Issuer Not Cooperating/ CRISIL A4/Issuer Not Cooperating	November 21, 2024

Any other information: None

Rating history for past three years

	Current (FY2025)			Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs Crore)	Dec 20, 2024	Date	Rating	Date	Rating	Date	Rating
Term Loans	Long Term	43.26	[ICRA]BBB+ (Stable)	31-Oct-23	[ICRA]BBB (Stable)	15-Jul-22	[ICRA]BBB (Stable)	-	-
Cash Credit	Long Term/Short Term	140.00	[ICRA]BBB+ (Stable) / [ICRA]A2	31-Oct-23	[ICRA]BBB (Stable)/ [ICRA]A3+	15-Jul-22	[ICRA]BBB (Stable)/ [ICRA]A3+	-	-
Unallocated	Long Term/Short Term	41.71	[ICRA]BBB+ (Stable) / [ICRA]A2	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based - Term Loan	Simple
Long-term/ Short-term - Fund-based - Cash Credit	Simple
Long-term/ Short-term- Unallocated Limits	Not Applicable

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**	FY2017	NA	March 2031	43.26	[ICRA]BBB+(Stable)
NA	**Cash Credit**	NA	NA	NA	140.00	[ICRA]BBB+(Stable)/ [ICRA]A2
NA	**Unallocated**	NA	NA	NA	41.71	[ICRA]BBB+(Stable)/ [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

Company Name	Ownership	Consolidation Approach
Life Line Feeds India Pvt. Ltd.	NA*	Full consolidation
Life Line Hatcheries	NA**	Full consolidation

**Parent company **Promoter proprietary firm.*

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