

September 23, 2020

Japfa Comfeed India Private Limited: Ratings reaffirmed with revised limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund Based / Term Loan	120.00	120.00	[ICRA]BBB+(Stable); Reaffirmed
Long-term – Fund Based / Cash Credit	90.00	90.00	[ICRA]BBB+(Stable); Reaffirmed
Short-term – Interchangeable [^]	(126.00)	(126.00)	[ICRA]A2; Reaffirmed
Long-term – Interchangeable [#]	(0.00)	(10.00)	[ICRA]BBB+(Stable); Reaffirmed
Total	210.00	210.00	

*: Instrument details are provided in Annexure-1, [^]: sublimit of cash credit facilities, [#]: interchangeable with term loan facility

Rationale

The reaffirmation of ratings with revised limits continues to factor in the proven track record of the Singapore based USD 4.0 billion Japfa Group, which is the promoter group of Japfa Comfeed India Private Limited (JCIPL or the Company), which has experience of over four decades in animal feed and poultry breeding business in Indonesia. The group has a presence across six countries and in five animal proteins. Being a part of such established group with global presence JCIPL enjoys operational benefits in terms of business expertise and financial flexibility since inception. The ratings reaffirmation further takes into account JCIPL's comfortable capitalisation and coverage indicators, coupled with a healthy liquidity position and efficient working capital management over the years.

The ratings, however, continue to remain constrained by the exposure to high business risks in the poultry segment, given volatile broiler realizations, risk of disease outbreaks, combined with seasonal nature of business. The company reported operating and net losses in FY2020 (provisional) due to losses in the poultry segment, primarily the commercial growing farm business, mainly on account of sharp decline in broiler prices in Q4FY2020 linked to rumours claiming poultry as a possible vector of Coronavirus and resulting in panic amongst consumers, as well as partly due to challenges in the farm management which were eventually resolved. However, with uptick in realizations of broiler prices and fall in raw material prices, especially corn, JCIPL posted turnaround in operations during Q1FY2021. JCIPL's feed segment remains exposed to movement in maize and soymeal prices along with availability of the same, which in turn is driven by agro-climatic conditions and global demand-supply situation. Although broiler prices are expected to moderate in the latter part of FY2021 on account of supply side constraints easing out and moderation of overall placements of the broilers, the overall demand-supply situation in the poultry segment will hinge on absence of any disruption like previous year, and movement of the raw material prices.

The ratings also continue to remain constrained by JCIPL's modest return indicators on account of moderate profitability levels over the years. ICRA also takes note of the sizeable debt-funded capital expenditure planned in

the poultry feed and breeding business. Timely commercialization of this capital expenditure and ensuring adequate capacity utilization remain critical from the credit rating perspective.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA's opinion that the company's efforts to improve the operational parameters of its poultry division will stabilize the overall profitability levels going forward, and the company will continue to benefit from its liquidity position and prudent working capital management practices.

Key rating drivers and their description

Credit strengths

Part of promoter group having proven track record with considerable experience in the poultry business leading to operational and financial flexibility – JCIPL is a subsidiary of the Singapore based Japfa Group, which is one of the largest integrated poultry players in Asia. It is headquartered in Singapore but derives a majority of revenues from Indonesia through its flagship company, PT Japfa Comfeed Indonesia Tbk. The flagship company is the second largest integrated poultry player in Indonesia with 18 feed mills, 78 breeding farms and 27 central hatcheries. The company has three major divisions, viz., poultry, cattle and aquaculture with poultry division dominating the consolidated sales. The group's presence across various countries and its diversification enable it to even out the cyclicity in a particular market or protein group to an extent. Being part of such an established group having proven track record with operational experience spanning over four decades in the poultry industry, has enabled JCIPL with operational benefits and financial flexibility over the years. In addition, long-term demand prospects of the domestic poultry industry will be supported by socio-economic factors, low per-capital consumption and poultry being one of the cheapest sources of protein. The Group remains strongly committed to its Indian operations as evidenced from instances of sizeable equity infusion in the last fiscals. The parent infused equity of Rs. 9.64 crore in FY2018 and Rs. 34.30 crore in FY2020 to part fund the capex.

Relatively stable margin realization from the poultry feed division; the segment exhibits considerable growth potential – The poultry feed division of JCIPL has exhibited relatively stable margin over the years, which provides some cushion against the fluctuations in the margin of the poultry division. Poultry feed division is the larger revenue contributor for JCIPL. Hence, its relatively stable margin realization leads to overall margin stability under normal course of business. Furthermore, the growth potential for the poultry feed division remains promising, given the wide geographical presence of JCIPL's feed mills coupled with increasing brand visibility for company's feed products.

Comfortable capitalization indicators, healthy liquidity position and efficient working capital management – JCIPL continues to exhibit comfortable capitalization indicators, with a gearing of 0.09x as on March 31, 2020 (provisional). The company's capital structure also draws comfort from its healthy liquidity position with cash and liquid investments of Rs. 75.13 crore as on March 31, 2020. Moreover, prudent working capital management practices observed by JCIPL ensure limited dependence on external working capital borrowings, which helps the company in keeping a check on overall debt levels. Cushion from the undrawn working capital limits further provides comfort to the company's liquidity position.

Credit challenges

Operating as well as net losses incurred in FY2020 on account of losses in the poultry division reflecting business vulnerability of the division – JCIPL recorded losses at operating and net levels in FY2020 (provisional) primarily on account of the losses in the poultry division. The quantum of losses in the division was particularly higher in Q4FY2020, which impacted the overall profitability metrics of the company. Certain challenges in the farm management coupled with adverse impact of Covid-19 on the overall poultry sector in the last quarter, leading to

crash in broiler prices led to losses for the poultry division. Nevertheless, JCIPL's efforts towards addressing the challenges in the farm management coupled with comparatively favourable raw material prices and revival in demand for poultry products led to recovery in margin in the current fiscal during Q1FY2021. Although broiler prices are expected to moderate in the latter part of FY2021 on account of supply side constraints easing out and moderation of overall placements of the broilers, the overall demand-supply situation in the poultry segment will hinge on absence of any disruption like previous year, and movement of the raw material prices.

Modest return indicators – JCIPL continues to exhibit modest return indicators on account of moderate level of profitability over the years. The sizeable capital expenditure planned over the near to medium term is expected to keep return indicators in a modest bracket in the near term. Hence commensurate return from the capex, as well as ability to grow its margin in the feed and poultry business through better value-added offerings remain critical from credit perspective.

Sizeable planned debt funded capex in poultry feed and breeding business; timely commercialization and ensuring adequate capacity utilization remain critical – JCIPL plans to undertake capacity expansion for both the divisions i.e. poultry feed and poultry. The company plans to set up feed mills in Uttar Pradesh and Karnataka. It also plans to add a parent stock (PS) farm in Maharashtra and expand its hatchery operations in the poultry segment. The overall capital expenditure plan amounts to ~Rs. 210.0 crore, out of which ~Rs. 55.0 crore has already been incurred. Funding for the ongoing capex will be met through bank borrowings of ~Rs. 120.0 crore, an equity infusion of ~Rs. 34.3 crore (already took place in FY2020) and internal accruals of the company. It is also to be noted that JCIPL deferred its earlier capex plans which were expected to be undertaken in FY2020 and FY2021 by a year after gauging the demand scenario. Such deferment of capex has helped the company in managing its cashflows and has also reduced the debt repayment burden over the near term. While expanding the scale of operations is expected to offer higher economies of scale and thus improve the profitability, timely commercialization and ensuring adequate capacity utilization remain critical for the ongoing capital expenditure drive.

Feed business remains exposed to movement in maize and soymeal prices along with availability, which in turn is driven by agro climatic conditions and global demand-supply situation – Around 70% of total cost for the company is feed cost, which largely comprises of soymeal and maize. Prices of these commodities are driven by agro-climatic conditions and international prices (which determine domestic supply). Any sharp increase in the same that cannot be adequately passed onto customers may affect company's profitability.

Exposed to inherent industry risk of disease outbreak - Poultry industry in India is severely affected by the outbreak of bird flu on a consistent basis. Moreover, the perceived limitations in quarantining the outbreak of infections make the entire country susceptible to outbreak in any region. Hence, this division remains susceptible to such developments, as recently reflected by crash in broiler prices and demand in Q4FY2020. However, the stringent bio-security measures adopted by the company over the years, and company's movement towards closed house farming which is expected to enhance the bird performances, are expected to mitigate the said risk to an extent.

Liquidity Position: Adequate

JCIPL's liquidity position remains **adequate** on the back of cushion available in the form of undrawn working capital limits of ~Rs. 37.0 crore as on July 31, 2020 (average utilisation of ~16% in the past 14 months) and cash/liquid equivalents of Rs. 75.13 crore as on March 31, 2020. Furthermore, the long-term debt repayment obligations are nil for FY2021.

Rating sensitivities

Positive triggers: The rating 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 triggers: The rating could be downgraded in case of a significant decline in company's revenue base leading to deterioration in margins and impacting company's key credit metrics on a sustained basis. Higher than anticipated debt funded capital expenditure resulting in weakening of coverage indicators may necessitate a negative rating action.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial statements of JCIPL.

About the company:

JCIPL is a 100% step down subsidiary of the Singapore based Japfa group with majority of parent revenues coming from Indonesia. JCIPL is involved in poultry (broiler) feed manufacturing, broiler breeding, rearing, sale of live broiler birds, sale of day-old chicks and hatching eggs. The company is based out of Pune in Maharashtra with poultry breeding operations concentrated mainly to western Maharashtra while its feed mills are located in western, eastern, northern and southern parts of India. JCIPL operates seven feed mills (four owned and three toll processing units) with annual production capacity of 416,400MT as on March 31, 2020. The company has its own parent stock breeding farms while commercial growing farms are on contract basis with more than 400 farmer partners across Maharashtra and Karnataka. The company during FY2020 divested its stake in its 50:50 joint venture with Aviagen (Central India Poultry Breeders Private Limited) for rearing and producing Parent Stock (PS) day old chicks (DOC) situated in Aurangabad.

Key financial indicators (Audited)

	FY2018 Audited	FY2019 Audited	FY2020 Provisional
Operating Income (Rs. crore)	586.64	754.65	902.45
PAT (Rs. crore)	20.87	14.75	-12.98
OPBDIT/ OI (%)	6.13%	3.92%	-1.46%
PAT/OI (%)	3.56%	1.95%	-1.44%
Total Outside Liability/ Tangible Net Worth (times)	0.35	0.38	0.38
Total Debt/ OPBDIT (times)	0.34	0.38	-1.62
Interest coverage (times)	20.58	34.76	-29.24

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2021)		Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding (Rs crore) as on March 2020	Date & Rating		Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
				23-Sep-2020	25-Aug-2020	8-Jul-2019	-	5-Jan-2018
1 Fund based-Term loan	Long Term	120.0	0.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
2 Fund based- Cash Credit	Long term	90.0	-	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	[ICRA]BBB+ (Stable)
3 Interchangeable [^]	Short Term	(126.0)	-	[ICRA]A2	[ICRA]A2	[ICRA]A2	-	[ICRA]A2
4 Interchangeable [#]	Long Term	(10.0)	-	[ICRA]BBB+ (Stable)	-	-	-	-

[^] Sublimit within cash credit limits; [#]: working capital demand loan facility interchangeable with term loan facility with overall exposure not to cross Rs. 32.0 crore

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan (Proposed)	NA	NA	NA	120.0	[ICRA]BBB+(Stable)
NA	Cash Credit	NA	NA	NA	90.0	[ICRA]BBB+(Stable)
NA	Interchangeable limits (short term) [^]	NA	NA	NA	(126.0)	[ICRA]A2
NA	Interchangeable limits (long term) [#]	NA	NA	NA	(10.0)	[ICRA]BBB+(Stable)

Source: Japfa Comfeed India Private Limited

[^] Sublimit within cash credit limits; [#]: working capital demand loan facility interchangeable with term loan facility with overall exposure not to cross Rs. 32.0 crore

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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