

March 20, 2017

Sri Lakshmi Poultry Farm

Instrument*	Rated Amount (in crore)	Rating Action
Cash Credit	5.50	Revised to [ICRA]D from [ICRA]B
Term Loan	2.87	Revised to [ICRA]D from [ICRA]B
Total	8.37	

Rating Action

ICRA has revised the long term rating assigned to Rs. 5.50 crore¹ cash credit and Rs.2.87 crore term loans facilities of Sri Lakshmi Poultry farm (SLPF)[†] to [ICRA]D (pronounced ICRA D) from [ICRA]B (pronounced ICRA B).

Rationale

The revision in ratings takes into the delays in term loan repayments owing to stretched liquidity position of the company with high working capital intensity on account of high inventory and delay in receivables from its customers owing to demonetization effect; average utilization of working capital limits has been high at 99% over the past 12 months. The ratings also reflect the firm's relatively small scale of operations in the poultry farming business with weak financial profile as reflected by high gearing of 3.12 times and weak coverage indicators as reflected by interest coverage ratio of 1.31 times as on 31st March,2016. The rating also factors in the cyclicality associated with the poultry industry, resultant table egg price volatility and vulnerability of profits to fluctuation in prices of feed (primarily maize, broken rice and soya), which accounts for more than 80%-85% of manufacturing cost. The rating, however, draws comfort from the vast experience of the management in the poultry farming and the healthy demand outlook for the layer eggs on account of increasing acceptance of eggs as a daily meal component.

Key rating drivers

Credit Strengths

- Experienced management in the poultry industry
- Healthy demand outlook for the layers segment of the industry; demand for eggs expected to increase

Credit Weakness

- Recent delays in debt servicing of its term loans owing to stretched liquidity
- Small scale of operations
- Cyclicality associated with the Indian poultry industry and resultant volatility in prices of eggs
- Vulnerability to rise in feed prices (primarily maize, broken rice and soya) which are ~80-85% of the expenses
- Weak financial profile characterized by low profitability, high gearing and low coverage indicators for FY 2016.
- Risks associated with the partnership nature of the firm

¹ 100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

Description of key rating drivers highlighted above:

The company is engaged in the business of commercial layer poultry farming and operates through facilities located in Brahmanagudem Village and Chikkala Village with total capacity of 2,80,000 commercial layers. The business is highly working capital intensive as the firm has to maintain higher feed inventory which accounts for 80%-85% of manufacturing cost and vulnerability to rise in feed prices (primarily maize, broken rice and soya) exposes the firm to margin volatility. The liquidity position of the firm is constrained on account of higher inventory holding; receivables have been stretched in the months of November and December 2016 owing to demonetization because of which there have been delays in repayments of term loans and interest payments. However, the same has been paid as on February, 2017. The business is exposed with the cyclicity in the Indian poultry industry and volatility in prices of eggs. The firm has witnessed healthy revenue growth of around 25% from Rs. 13.62 crore in FY2015 to Rs. 16.97 crore in FY2016 on the back of increase in sales volumes supported by improvement in price realizations. However the net margins have lower on account of higher depreciation and interest expenses which has lead to higher gearing of 3.12 times and weak coverage indicators with interest coverage at 1.31 times for FY2016.

The promoter has 12 years of experience in poultry industry which helps them to establish long standing relationships with customers and the healthy demand outlook for the layer eggs on account of increasing acceptance of eggs as a daily meal component.

Going forward, the ability of the company to service its debt obligations in a timely manner by improving its liquidity position, improve its scale and effective management of working capital requirements are key rating sensitivities from credit perspective

Analytical approach: NA

Links to applicable Criteria

Corporate Credit Ratings: A Note on Methodology

ICRA-Treatment of default

About the Company:

Sri Lakshmi Poultry Farm (SLPF) was incorporated as a partnership firm during the year 2007. The firm is engaged in the business of commercial layer poultry farming and currently operates through facilities located in Brahmanagudem Village and Chikkala Village with total capacity of 2,80,000 commercial layers.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014	
				March 2017	February 2016	October 2014	May 2013	
1	Cash Credit	Long Term	5.50	[ICRA]D	[ICRA]B	[ICRA]B	[ICRA]B+	
2	Term Loans	Long Term	2.87	[ICRA]D	[ICRA]B	[ICRA]B	[ICRA]B+	

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
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	5.50	[ICRA]D
Term Loans	Sep-2013	-	Aug-2019	2.87	[ICRA]D

Source: Sri Lakshmi Poultry Farm

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