Shalimar Pellet Feeds Limited

March 22, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loans	28.49	16.50	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund-based-Cash Credit	42.00	60.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund-based-Unallocated	4.26	8.40	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Non-fund based-Letter of Credit	3.00	(2.00)*	[ICRA]A1; upgraded from [ICRA]A2+
Non-fund based- Bank Guarantee	2.10	2.10	[ICRA]A1; upgraded from [ICRA]A2+
Non-fund based- Forward Contract Limit	0.15	2.00	[ICRA]A1; upgraded from [ICRA]A2+
Total	**80.00**	**89.00**	

*sub-limit of cash credit facility

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 16.50-crore[1] (reduced from Rs. 28.49-crore) term loan facility, Rs. 60.00-crore (increased from Rs. 42.00-crore) cash-credit facility, and Rs. 8.40-crore (increased from Rs. 4.26-crore) unallocated limit of Shalimar Pellet Feeds Limited (SPFL)[2] to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating is Stable. ICRA has also upgraded the short-term rating assigned to the Rs. 2.10-crore bank guarantee limit, Rs. 2.0-crore (reduced from Rs. 0.15-crore) forward contract limit, and Rs. 2.00-crore (sub-limit of cash-credit facility) facility of SPFL to [ICRA]A1 (pronounced ICRA A one) from [ICRA]A2+ (pronounced ICRA A two plus).

Rationale

While arriving at SPFL's ratings, ICRA has taken a consolidated view of the credit profiles of Shalimar Hatcheries Limited (SHL), Sona Vets Private Limited (SVPL), Shalimar Nutrients Private Limited (SNPL) and Shalimar Pellet Feeds Limited (SPFL) (referred to as the Shalimar Group/ Group) given the operational and financial linkages among the four companies and a common management shared by them.

[1] *100 lakh = 1 crore = 10 million*

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

The upgrade in the ratings takes into account the improvement in the overall financial risk profile of the group, reflected by higher absolute profits, improved return on capital employed and debt-coverage indicators. While arriving at the ratings, ICRA also took into account the increase in broiler realisation and stable feed costs during the current financial year, which is expected to further strengthen the Group's profitability in FY2018. Moreover, the capex planned by SPFL in the medium term is small compared to its current balance sheet size, which is not likely to have any adverse impact on the company's gearing, coverage indicators and cash flows, as the internal accruals from business is expected to remain healthy. The ratings continue to draw comfort from the established presence of the Shalimar Group in the poultry and related business, and operational linkages of SPFL with other Group entities which supports its market position. ICRA also notes that the entire requirement for soya de-oiled cake is met from its group company, Shalimar Nutrients Private Limited, thus enabling the company to have a better control on the cost and the quality of feed production.

The ratings are, however, constrained by the vulnerability of SPFL's margins to fluctuations in prices of its key raw materials, maize and soya de-oiled cake, as well as exposure to the inherent risk of disease outbreaks in the animal-husbandry business. However, various bio-security practices adopted by the company over the years mitigate the same to an extent.

Outlook: Stable

ICRA believes that SPFL will continue to benefit from the extensive experience of its promoters in the poultry business. The outlook may be revised to 'Positive' if there is an overall improvement in the financial risk profile of the company. The outlook may be revised to 'Negative' if there is a significant deterioration in the profitability and cash accruals of the company owing to adverse movement in raw-material prices.

Key rating drivers

Credit strengths

Established presence of the Shalimar Group in the poultry and related business; operational linkages with the Group supports its market position – The Shalimar Group has been in the poultry and related business since 1970. Over the years, the group has diversified and integrated its operations in the poultry business to become one of the few large integrators in India. Shalimar Pellets Feeds Limited is primarily the backward integration arm of the Group, and is involved mainly in manufacturing of poultry feed, and to an extent in breeding and hatching operations. The company derives around 92%-95% of its revenues from the sale of poultry feed, and approximately 70%-75% of SPFL's total sales are made to its group companies.

Comfortable financial profile reflected by conservative gearing and comfortable debt-coverage indicators – Shalimar's financial risk profile remains favourable, supported by healthy return on capital employed, conservative gearing and comfortable debt-coverage indicators. SPFL, on a standalone basis has a conservative capital structure and comfortable coverage indicators, as reflected by gearing of 0.50 times, interest cover of 4.39 times, total debt/OPBDITA of 1.75 times NCA/total debt of 39% in FY2017. Further, ICRA noted that the capex planned by SPFL in the medium term is small compared to its current balance sheet size which is not likely to have any adverse impact on the company's gearing, coverage indicators and cash flows, as the internal accruals from business is expected to remain healthy.

In-house sourcing of soya de-oiled cake and poultry feed reduces risk of availability to a great extent – One of the key raw material required by SPFL for preparation of poultry feed is soya de-oiled cake. ICRA notes that the entire requirement for soya de-oiled cake is met from its group company, Shalimar Nutrients Private Limited, thus enabling the company to have a better control on the cost and quality of feed production.

Credit challenges

Profitability vulnerable to maize and soya prices – The major raw materials required for the feed plant are maize and soya de-oiled cake (DOC), prices of which remain volatile due to fluctuation in domestic production. Prices of raw materials are also dependent on agro-climatic condition, international prices, and demand from the poultry sector, which is susceptible to seasonality in demand. SPFL's operating margins are sensitive to raw material costs since the same accounts for roughly 90% of the operating income. Maize and soya DOC together account for ~65-70% of the total raw material cost.

Inherent risk of disease outbreaks in the animal husbandry business - SPFL, like other entities in the poultry and related businesses, is exposed to the inherent industry risk of disease outbreaks (bird flu). However, ICRA takes into account various bio-security measures adopted by the company over the years, which mitigate the risk to some extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated in 1994, SFPL is involved primarily in manufacturing of poultry feed and to a small extent in breeder farming and hatching operations. The company is a part of the Shalimar Group based out of Kolkata, West Bengal and has presence across soya extraction and refining, poultry and aqua-feed manufacturing, breeder farming, hatching, broiler farming, chicken processing, layer farming and milk processing into milk and milk products.

Key financial indicators

	FY2016	**FY2017**
Operating Income (Rs. crore)	1086.89	1216.90
PAT (Rs. crore)	10.22	8.98
OPBDIT/ OI (%)	3.19%	2.88%
RoCE (%)	12.98%	11.85%
Total Debt/ TNW (times)	0.85	0.50
Total Debt/ OPBDIT (times)	2.68	1.75
Interest coverage (times)	4.42	4.39
NWC/ OI (%)	7%	4%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2018 Mar-18	Date & Rating in FY2017 Feb-17	Date & Rating in FY2016 Jan-16	Date & Rating in FY2015 -
1	Fund-based limit – Term Loan	Long-term	16.50	**16.50**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Fund-based limit – Cash Credit	Long-term	60.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	Fund-based – Unallocated	Long-term	8.40	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
4	Non-fund based – Letter of Credit	Short-term	(2.00)*	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-
5	Non-fund based – Bank Guarantee	Short-term	2.10	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-
6	Non-fund based – Forward contract limit	Short-term	2.00	-	[ICRA]A1	[ICRA]A2+	[ICRA]A2+	-

*sub-limit of cash credit limit

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/Commission	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2015	10.80%	FY2021	16.50	[ICRA]A (Stable)
NA	Cash Credit	-	9.80%	NA	60.00	[ICRA]A (Stable)
NA	Unallocated		-	NA	8.40	[ICRA]A (Stable)
NA	Letter of Credit	-	-	NA	(2.00)*	[ICRA]A1
NA	Bank Guarantee	-	-	NA	2.10	[ICRA]A1
NA	Forward Contract Limit	-	-	NA	2.00	[ICRA]A1

Source: Shalimar Pellet Feeds Limited

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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