

Shalimar Nutrients Pvt Ltd

April 05, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based-Term Loan	12.99	8.00	[ICRA]A (Stable); reaffirmed
Fund-based-Cash Credit	30.00	70.00	[ICRA]A (Stable); reaffirmed
Fund-based-Packing Credit/Bill Discounting/Foreign Bill Discounting	(15.00) [#]	(15.00) [#]	[ICRA]A (Stable); reaffirmed
Non-fund-based-Bank Guarantee	2.00	2.00	[ICRA]A1; reaffirmed
Non-fund-based-Letter of Credit	(5.00) [#]	(5.00) [#]	[ICRA]A1; reaffirmed
Unallocated	18.01	-	
Total	63.00	80.00	

*Instrument details are provided in Annexure-1

[#] sub-limit of cash credit facility

Rationale

ICRA has taken into consideration the consolidated financial and operational profiles of Shalimar Hatcheries Limited (SHL), Sona Vets Private Limited (SVPL), Shalimar Nutrients Pvt Ltd (SNPL) and Shalimar Pellet Feeds Limited (SPFL) (referred to as the Shalimar Group/ Group) for the assigned ratings, given the operational and financial linkages among the four companies and a common management between them.

The ratings continue to draw comfort from the established presence of the Shalimar Group in the poultry and related businesses, and operational linkages between the Group entities, which support its market position. ICRA also takes note of the Group's integrated nature of operations with its presence across various stages of the value chain, including soya solvent extraction, refining, manufacturing of poultry feed, breeder farming, hatchery, broiler farming, layer farming and chicken processing. The entire poultry feed requirement is met internally from within the Group, which eliminates the risk associated with feed availability and also ensures consistency in feed quality. The ratings also consider the Group's healthy net cash accrual and return on capital employed, conservative capital structure and strong debt coverage metrics.

However, the ratings are constrained by the susceptibility of the Group's margins to highly volatile feed prices, which are dependent on agro-climatic conditions, with maize and soya being the main raw material for feed manufacturing. Fluctuating broiler realisations, due to seasonal nature of the demand of poultry products in India, is also a factor. The Group, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu). However, ICRA takes into account various bio-security measures adopted by it over the years, which mitigates the risk to an extent.

Outlook: Stable

ICRA believes that the Group will continue to benefit from its established market presence and the extensive experience of its promoters in the poultry business. The outlook may be revised to Positive if there is a significant improvement in the turnover and profitability of the Group. However, it may be revised to a Negative if adverse movements in raw material prices and/or broiler realisation adversely impact the Group's margins and cash accruals.

Key rating drivers

Credit strengths

Established presence of Shalimar Group in poultry and related businesses; operational linkages among Group entities support its market position – The Shalimar Group has a dominant presence in the poultry industry, primarily in the eastern and north-eastern part of India. The group has been involved in this line of business for over four decades and has many business divisions which includes soya solvent extraction, refining, manufacturing of poultry feed, breeder farming, hatchery, broiler farming, layer farming and chicken processing. ICRA believes that the integrated operations of the Group, spanning refinery and manufacturing of poultry feeds to broiler farming and processed chicken, helps it to have greater control over the cost as well as the quality of the produce. The Group depends on external sources to partly meet its requirement for hatching eggs and this exposes its profitability to any significant adverse movement in its prices. However, ICRA expects its planned capex for expanding its breeder farming capacity to mitigate the risk to some extent.

In-house sourcing of poultry feed reduces risk of availability to a great extent – The major raw material required in poultry farms are feeds, the rest being the cost of day-old chicks, medicines etc. ICRA notes that the entire requirement for poultry feed is met from within the Group company, ensuring the quality and availability of poultry feed.

Comfortable financial profile, characterised by healthy return on capital employed, conservative capital structure and strong debt coverage indicators - The overall financial risk profile of the Group remained comfortable and improved further in FY2018. The return on capital employed in FY2018 remained healthy at 30.06% (20.79% in FY2017), and the gearing as on March 31, 2018 stood at a low level of 0.29 times (0.45 times in the previous year), on a consolidated basis. ICRA notes that the consolidated operating margin of the group improved from 5.32% in FY2017 to 6.89% in FY2018, supported by softening feed prices and also improved broiler realisations. The improved profits at an absolute level, coupled with low debt levels, resulted in strong debt-coverage indicators, as reflected by the interest cover, the total debt to OPBDITA, and net cash accruals to total debt of 12.59 times, 0.66 times and 113% respectively in FY2018.

Credit challenges

Profitability vulnerable to movement in feed prices – The major raw materials required for poultry feed are maize and soya de-oiled cake (DOC), prices of which remain volatile on the back of fluctuations in domestic production due to dependency on agro-climatic conditions, international prices and demand from the poultry sector, which is susceptible to seasonality in demand. While quality and availability of the feed is assured (as the same is entirely sourced internally from within the Group), profitability of the Group, like other entities in the poultry business, continues to remain vulnerable to the movement in feed prices.

Exposed to high volatility in broiler realisations – In the past, the Indian poultry industry has been periodically affected by unfavourable broiler realisations, a consequence of the seasonal nature of the demand of poultry products in India and the occasional over-supply situation in the market. However, industry-wide efforts to maintain broiler supply in the market has resulted in an improved operating environment, which was reflected in the improved performance across all poultry players in FY2018. However, removal of the restriction on import of frozen chicken legs from the US may have an impact on the profitability of the domestic players; though the extent of the impact may be restricted as Indian consumers have a preference for live birds and limited cold chain infrastructure in the country.

Inherent risk of disease outbreaks in the animal-husbandry business – The Group, 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 the various bio-security measures adopted by the company over the years, which mitigate the risk to some extent.

Liquidity position

The Group's average working capital limit utilisation remained low at 25% during January 2018 to December 2018. In addition, adequate net cash accruals vis-a-vis debt repayment obligations, are expected to keep its liquidity position comfortable. A capital expenditure of around Rs. 70-crore is likely to be incurred by the Group till FY2021. However, given its healthy cash accruals and partial debt funding, the capital expenditure programme is unlikely to have any adverse impact on the Group's liquidity.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Financial Consolidation and Rating Approach
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of various Group entities (as mentioned in Annexure-2) given the close operational, financial and managerial linkages among them.

About the company

Incorporated on December 21, 2010, Shalimar Nutrients Private Limited (SNPL) was set up as a backward integration arm of the Shalimar Group. The company has a solvent extraction unit and a refinery unit. The company is a part of the Shalimar Group based out of Kolkata, West Bengal which 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 (audited)

Consolidated*	FY2017	FY2018
Operating Income (Rs. crore)	2382.74	2593.68
PAT (Rs. crore)	52.63	94.75
OPBDIT/OI (%)	5.32%	6.89%
RoCE (%)	20.79%	30.06%
Total Debt/TNW (times)	0.45	0.29
Total Debt/OPBDITA (times)	1.13	0.66
Interest coverage (times)	6.23	12.59

*Consolidated financials of four group companies (SHL, SVPL, SNPL and SPFL)

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Instrument	Type	Current Rating (FY2020)		Chronology of Rating History for the past 3 years			
		Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2020 April-19	Date & Rating in FY2019	Date & Rating in FY2018 Mar-18	Date & Rating in FY2017 Feb-17
1 Fund-based-Term Loan	Long-term	8.00	11.14 (March 31, 2018)	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
2 Fund-based-Cash Credit	Long-term	70.00	-	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
3 Fund-based-Packing Credit/Bill Discounting/Foreign Bill Discounting	Long-term	(15.00) [#]	-	[ICRA]A (Stable)	-	[ICRA]A (Stable)	[ICRA]A- (Stable)
4 Non-fund-based-Bank Guarantee	Short-term	2.00	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A2+
5 Non-fund-based-Letter of Credit	Short-term	(5.00) [#]	-	[ICRA]A1	-	[ICRA]A1	[ICRA]A2+
6 Unallocated	Long-term			-		[ICRA]A (Stable)	[ICRA]A- (Stable)

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 Loan	FY2015	9.70%	FY2021	8.00	[ICRA]A (Stable)
NA	Cash Credit I	NA	NA	NA	50.00	[ICRA]A (Stable)
NA	Cash Credit II	NA	NA	NA	20.00	[ICRA]A (Stable)
NA	Packing Credit/Bill Discounting/Foreign Bill Discounting	NA	NA	NA	(15.00)#	[ICRA]A (Stable)
NA	Bank Guarantee	NA	NA	NA	2.00	[ICRA]A1
NA	Letter of Credit	NA	NA	NA	(5.00)#	[ICRA]A1

**sub-limit of cash credit facility*

Source: Shalimar Nutrients Pvt Ltd

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Shalimar Hatcheries Limited	-	Full Consolidation
Sona Vets Private Limited	-	Full Consolidation
Shalimar Pellet Feeds Limited	-	Full Consolidation

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