

May 14, 2019

Indian Agro and Food Industries Limited: Rating of Non- Convertible Debenture withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed non-convertible debenture programme	100.00	0.00	[ICRA]A+ (Stable); withdrawn
Fund-based-Term Loans	125.05	125.05	[ICRA]A+ (Stable); outstanding
Fund-based- Cash Credit	185.00	185.00	[ICRA]A+ (Stable); outstanding
Interchangeable-Non-fund-based limits^	(12.00)	(12.00)	[ICRA]A1+; outstanding
Proposed commercial paper programme #	50.00	50.00	[ICRA]A1+; outstanding
Total	460.05	360.05	

*Instrument details are provided in Annexure-1

^sub-limit of Cash Credit

#to be carved out of the existing working capital limit

Rationale

The rating of proposed non-convertible debenture programme is withdrawn in accordance with ICRA's policy on withdrawal and suspension and as desired by the company.

Outlook: Stable

ICRA believes IAFL 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 a substantial improvement in the Group's profitability and business returns. The outlook may be revised to a Negative if there is a significant deterioration in the cash accruals of the Group owing to adverse movement in raw material prices and/or broiler realisations.

Key rating drivers

Credit strengths

Dominant market presence of IB Group in animal feed, poultry and related businesses; operational linkages among Group entities an advantage – The IB Group has a dominant presence in the animal feed and poultry industry. It has been in this line of business for over three decades and has many business divisions which includes manufacturing of animal feeds, grandparent farming, breeder farming, hatchery, broiler farming, layer farming, chicken processing, soya and rice bran extraction and soya refining. The integrated operations of the Group provide significant competitive advantage over other unorganised players.

Tie-up with Aviagen India for sourcing of grandparent DOC accelerated revenue growth and reduced overall cost – IAFL has entered into a strategic partnership with Aviagen India for the purchase of ROSS 308 variety of grandparent day-old chicks from the latter. With this agreement, the company has been able to integrate its operations further being able to source grandparent day old chicks at a cost lower than the market price, thereby supporting the Group's operating profitability. The same has also helped the Group accelerate its revenue growth.

Internal sourcing of major part of poultry feed ensures quality, availability as well as better control over prices – The major raw material required in poultry farms is feed, others being cost of the day-old chicks, medicines etc. ICRA notes that a major part of the poultry feed is procured from within the Group, ensuring its quality and availability. Moreover, the integrated operations help it to have greater control over the input cost as well as the quality of the produce.

Credit challenges

Profitability vulnerable to movement in feed prices – Major raw materials required for the 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. While quality and availability of the feed are assured to an extent, being sourced mainly from a Group company, the company’s profitability, like other entities in the poultry business, continues to remain vulnerable to the movement in feed prices. The IB Group, like most of the other poultry integrators, benefitted from a sharp correction in feed prices during FY2017 and FY2018; however, with a sharp increase in prices of feed ingredients, especially maize, the Group’s profitability declined substantially in 9M FY2019 as broiler realisations remained muted.

Exposed to high volatility in broiler realisations – 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. The broiler production cost and realisations vary considerably across geographies and get impacted by seasonality as well as local supply dynamics. However, the increase in feed prices generally follow similar trends across geographies. Variations in broiler prices and feed prices, as inherent in the industry, expose the poultry players to risk of fluctuating margins. However, limited cold chain infrastructure in India and consumer preference for live birds might limit the impact for domestic poultry players in the near to medium term if unabated imports land from the US.

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 or Avian Influenza). However, ICRA takes into account the various bio-security measures adopted by the company over the years, which mitigates the risk to some extent.

Liquidity position

Healthy net cash accruals vis-a-vis debt repayment obligations and adequate cushion in working capital limit utilisation (average utilisation of 65% during April 2018 to March 2019) are expected to keep its liquidity position comfortable. A capital expenditure of around Rs. 180-crore is likely to be incurred by the Group till FY2020. However, given the healthy cash accruals and financial closure for a major portion of the project, the capital expenditure 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 ICRA’s Policy on Withdrawal and Suspension of Credit Rating
Parent/Group Support	Not applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has consolidated the financials of two Group entities Indian Agro and Food Industries Limited (IAFL) and Abis Exports (India) Private Limited (AEIPL) (as mentioned in Annexure-2) given the close operational, financial and managerial linkages among them.

About the company

Indian Poultry was established as a partnership firm in 1985 by Mr. Sultan Ali and his family members in Rajnandgaon, Chhattisgarh. In April 2009, the partners converted Indian Poultry into a public limited company, following which it was renamed Indian Agro and Food Industries Limited (IAFL). The company is involved in grandparent farming, parent breeder farming, broiler farming, incubation, layer farming and chicken processing.

In the nine months of FY2019, on a provisional standalone basis, the company reported a net profit of Rs. 76.88 crore on an operating income of Rs. 1724.24 crore, as compared to a net profit of Rs. 128.50 crore on an operating income of Rs. 1721.03 crore in FY2018.

Key financial indicators (audited)

Consolidated*	FY2017	FY2018
Operating Income (Rs. crore)	2554.6	3356.7
PAT (Rs. crore)	95.5	223.6
OPBDIT/OI (%)	11.2%	13.2%
RoCE (%)	22.7%	32.7%
Total Debt/TNW (times)	1.02	0.70
Total Debt/OPBDITA (times)	1.90	1.19
Interest coverage (times)	5.24	9.50

*Consolidated financials of two group companies (IAFL and AEIPL)

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) (March 31, 2019)	Date & Rating May 2019	Date & Rating April 2019	Date & Rating in FY2019 July 2018	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 April 2016
1	Proposed non-convertible debenture programme	Long Term	100.00	-	[ICRA]A+ (Stable); withdrawn	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	-
2	Commercial Paper#	Short Term	50.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	-
3	Term Loans	Long Term	125.05	132.60	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Cash Credits	Long Term	185.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
5	Interchangeable - Fund based/ Non-fund-based facilities^	Short Term	(12.00)	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1	[ICRA]A1

^sub-limit of Cash Credit

#to be carved out of the existing working capital 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	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Proposed non-convertible debenture programme	NA	NA	NA	100.00	[ICRA]A+ (stable); withdrawn
NA	Commercial Paper#	NA	NA	NA	50.00	[ICRA]A1+
NA	Term Loan 1	24-Aug-17	NA	May-26	70.00	[ICRA]A+ (stable)
NA	Term Loan 2	13-Jun-17	NA	Jun-22	55.05	[ICRA]A+ (stable)
NA	Cash Credit	NA	NA	NA	185.00	[ICRA]A+ (stable)
NA	LER (Sublimit of CC)	NA	NA	NA	(2.00)	[ICRA]A1+
NA	LC/ BG (Sublimit of CC)	NA	NA	NA	(10.00)	[ICRA]A1+

#to be carved out of the existing working capital limit

Source: Indian Agro and Food industries Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Abis Exports (India) Private Limited	-	Full Consolidation

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About ICRA Limited:

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