July 27, 2023

Japfa Comfeed India Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term, Fund-based-Term loan	195.00	195.00	[ICRA]A- (Stable); reaffirmed
Long-term, Fund-based-Cash Credit	100.00	100.00	[ICRA]A- (Stable); reaffirmed
Short-term - Interchangeable	(100.00)	(100.00)	[ICRA]A2+; reaffirmed
Long-term - Interchangeable	(30.00)	(30.00)	[ICRA]A- (Stable); reaffirmed
Total	**295.00**	**295.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in Japfa Comfeed India Private Limited's (JCIPL) established position in the poultry feed business, and operational support and financial flexibility derived from its strong parentage – Singapore-based Japfa Group, a leading industrial agri-food company in pan-Asia. Benefitting from the same, the company has widened its feed manufacturing base and scaled up its business over the years. In FY2023, in line with some other industry players, JCIPL's performance was impacted on account of lower poultry prices. This led to some moderation in its revenue and contraction in operating margins. Nonetheless, the situation improved in Q1 FY2024, with recovery in poultry prices and feed demand. Recovery in JCIPL's top line and margins is expected in FY2024, on the back of improvement in demand and poultry prices, and some stability in key raw material prices, as witnessed in Q1 FY2024. Moreover, JCIPL is undertaking capex to diversify its feed division by venturing into the cattle and aqua feed spaces and to consolidate its poultry operations by setting up a slaughterhouse, portioning centre and dark stores for its chilled chicken business. The same are expected to get commissioned in early FY2025 and support JCIPL's future growth and provide some stability to its overall profitability metrics, going forward. The ratings also continue to factor in the company's comfortable capital structure with equity infusion of Rs. 20 crore by the parent in FY2023 and adequate liquidity position, supported by unencumbered cash/bank balances (Rs. 96.5 crore as of April 30, 2023) and no debt repayment liability in FY2024.

The ratings, however, remain constrained by high competitive intensity of the industry and vulnerability of JCIPL's profitability to volatility in prices of key raw materials, maize and soya meal, which are driven by agro-climatic conditions and global demand and supply. Moreover, in line with the nature of the industry it operates in, JCIPL's profitability remains exposed to the inherent volatility in the poultry business. However, significantly higher revenue contribution from the poultry feed business renders stability to profit margins, to some extent. The ratings also factor in the moderate scale of operations of JCIPL's commercial poultry farming in an intensely competitive industry, coupled with high geographic concentration, evident from poultry operations which are largely limited to western Maharashtra.

Further, the ongoing sizeable debt-funded capex is expected to moderate JCIPL's debt protection metrics over the near term. Also, commercialisation of the same without any material time or cost overruns and optimal ramp-up of production will be key rating monitorables, going forward.

The Stable outlook on the long-term rating reflects ICRA's expectations that despite the volatility in margins and the significant debt-funded capex, JCIPL will continue to benefit from its established position, strong parentage, and diversification initiatives, enabling it to report steady accrual generation, going forward.

Key rating drivers and their description

Credit strengths

Strong management, operational support and financial flexibility from parent Group – JCIPL is a subsidiary of the Singapore-based Japfa Group, which is one of the largest integrated poultry players in Asia. The flagship company is the second-largest integrated poultry player in Indonesia with 16 feed mills, 77 breeding farms and 30 central hatcheries. It has three major divisions, viz., poultry, cattle and aquaculture with the poultry division dominating the consolidated sales. The Group's presence across various countries and its diversification enables it to even out the cyclicality in a specific region or protein group, to an extent. JCIPL benefits from operational and financial flexibilities from being a part of the Japfa Group.

Efforts to increase diversification in feed division and consolidate poultry business expected to provide stability to overall profitability – JCIPL is undertaking sizeable capex to increase diversification in the feed division by venturing into the cattle and aqua feed spaces. Major portion of this capex has already been completed and commercial production of the same is expected to commence in FY2024. Moreover, in order to consolidate its poultry business and enable forward integration, JCIPL is setting up a slaughterhouse, a portioning centre and dark stores, which are expected to be commissioned in early FY2025. This will enable the company to grow its downstream segment, which in turn is expected to provide some stability to its inherently volatile poultry business. Further, JCIPL is also setting up its own poultry breeding farms for rearing its broiler chicks. These efforts to diversify the feed division and consolidate the poultry division are expected to provide stability to JCIPL's overall profitability. Also, the timely commissioning and scale up of these projects is expected to support the overall growth.

Comfortable capital structure and liquidity position – Despite moderation in accrual generation in FY2023, JCIPL's capital structure and gearing level have remained comfortable due to relatively lower debt levels and equity infusion of Rs. 20 crore by the parent during the fiscal. This, coupled with relatively lower outflow towards ongoing capex programme during the fiscal, has continued to result in adequate liquidity position for the company. Sizeable debt-funded capex over FY2024-FY2025 is expected to moderate JCIPL's debt metrics over the near term. Nonetheless, its gearing level is expected to remain comfortable and debt protection metrics are expected to strengthen over the medium term, aided by steady accretion to reserves.

Credit challenges

Sizeable, planned debt-funded capex in feed and poultry businesses – JCIPL has charted out sizeable debt-funded capex plans to diversify its feed business, improve capacities, consolidate its poultry business and enable forward integration for supporting its future growth. ICRA has also noted the upward revision in the capex cost due to increase in overall outlay and change in scope, which would be funded through debt, existing surplus and internal accruals. While the planned capex is expected to provide incremental revenue, coupled with margin stability over the medium term, ensuring its timely commercialisation and adequate capacity utilisation remains a key credit monitorable in the near term.

Profitability exposed to inherent volatility in the poultry business – In line with the nature of the industry it operates in, JCIPL's profitability remains exposed to the volatility in the poultry business, especially in case of any disease outbreak as well as inherent seasonality in the industry. This was also demonstrated by segmental losses in FY2023, on account of sharp decline in poultry realisations, especially in Q2 and Q4 FY2023, which dragged down the overall operating margins of the company in the fiscal. However, poultry realisations have recovered in Q1 FY2024 and the overall poultry segment performance is expected to improve in the current fiscal. Moreover, bio-security measures adopted by the company over the years are expected to support the poultry segment's operating performance and mitigate the risk of disease outbreaks, to an extent.

Moderate scale of operations of commercial poultry farming in intensely competitive industry with high geographic concentration – JCIPL operates in the highly fragmented and intensely competitive poultry industry, which is characterised by many small and medium-sized players. Further, with majority of its poultry operations limited to the western regions of India, JCIPL demonstrates a high degree of geographic concentration for its poultry division. Moreover, its poultry division continues to exhibit a moderate scale of operations in FY2023. Nonetheless, the ongoing capital expenditure is aimed at adding capacity to the poultry division in terms of better operational controls in the broiler farms and expansion in the downstream poultry segment is expected to expand the division's scale of operations, to an extent.

Feed business remains exposed to movements in maize and soya meal prices along with availability, which is driven by agro-climatic conditions and global demand-supply scenario – The raw material cost, soya and maize, is a major expense head of the company, accounting for around 70% of its total cost. Prices of these commodities are largely driven by agro-climatic conditions and international prices (which determine domestic supply). The company's profitability continues to be susceptible to volatility in raw material prices; however, it is largely able to pass on the same to its customers.

Liquidity position: Adequate

The liquidity profile of JCIPL remains **adequate,** supported by cash/bank balances of Rs. 96.5 crore as on April 30, 2023, and no debt repayment liability in FY2024, despite moderation in accrual generation in FY2023. The company will be incurring sizeable debt-funded capex over FY2024-FY2025, for which the term loans have already been sanctioned and existing surplus will be consumed. Despite the same, JCIPL's liquidity position is expected to remain adequate, supported by steady internal accrual generation with the expected scaling up of operations and margin improvement over the near to medium term. Moreover, being part of the Japfa Group, enhances JCIPL's financial flexibility, evident from the equity infusion of Rs. 20 crore by the parent in FY2023.

Rating sensitivities

Positive factors – The ratings 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 factors – The ratings could be downgraded, if there is a pressure on the company's liquidity and debt coverage indicators due to significant deterioration in its profitability indicators, or any significant cost/time overruns in the ongoing capex programme. Total Debt/OPBIDTA above 2.3 times, on a sustained basis, may also warrant a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of JCIPL

About the company

JCIPL, established in 1995, is a 100% step-down subsidiary of the Singapore-based Japfa Group with majority of parent revenues derived from Indonesia. JCIPL is involved in poultry feed manufacturing, broiler breeding, rearing, sale of live broiler birds, sale of day-old chicks, hatching eggs and has also ventured into the chilled chicken and meat segment. The company is based out of Pune in Maharashtra, with poultry breeding operations concentrated mainly in western Maharashtra, while its feed mills are in the western, eastern, northern and southern parts of India. JCIPL operates eight feed mills (five owned and three toll processing units) with annual production capacity of 4,77,000 MT as on March 31, 2023. The company has its own parent stock breeding farms, while commercial growing farms are on contract basis with around 150 farmer partners across Maharashtra.

Key financial indicators (audited)

	FY2022	FY2023*
Operating income	1,238.9	1,148.7
PAT	35.4	- 0.5
OPBDIT/OI	4.3%	1.1%
PAT/OI	2.9%	0.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.6
Total debt/OPBDIT (times)	0.1	2.7
Interest coverage (times)	121.1	12.8

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; * Provisional financials*

financial ratios in the report are ICRA adjusted figures and may not be directly comparable with results reported by the company in some instances

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the Past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					July 27, 2023	Sep 29, 2022	July 27, 2021	Sept 23, 2020 August 25, 2020
1	**Term loans**	Long term	195.00	34.22	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	**Cash Credit**	Long term	100.00	--	**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3	**Interchangeable^**	Short-term	(100.00)		**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
4	**Interchangeable^**	Long-term	(30.00)		**[ICRA]A- (Stable)**	[ICRA]A- (Stable)	-	[ICRA]BBB+ (Stable)*

*^ sublimit within cash credit limits; * not rated on August 25, 2020*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term – Fund-based Cash Credit	Simple
Short Term – Interchangeable	Simple
Long Term – Interchangeable	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	2022	7-8%	2029	195.00	[ICRA]A- (Stable)
NA	**Cash Credit**	NA	NA	NA	100.00	[ICRA]A- (Stable)
NA	**Interchangeable Limits (Short Term)**	NA	NA	NA	(100.00)	[ICRA]A2+
NA	**Interchangeable Limits (Long Term)**	NA	NA	NA	(30.00)	[ICRA]A- (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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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.

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