September 27, 2024

Shalimar Hatcheries Limited: Long-term rating upgraded to [ICRA]A+ (Stable), short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	77.00	90.62	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable); assigned for enhanced amount
Long-term Fund-based – Term Loan	40.00	179.40	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable); assigned for enhanced amount
Short-term Non-Fund based – Working Capital Facilities	8.60	7.60	[ICRA]A1, reaffirmed
Short-term Non-Fund based – Interchangeable	(22.00)	(2.00)	[ICRA]A1, reaffirmed
Long-term/ Short-term – Unallocated Limits	4.40	3.38	[ICRA]A+ (Stable), upgraded from [ICRA]A (Stable)/ [ICRA]A1, reaffirmed
Total	**130.00**	**281.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating(s), ICRA has considered the consolidated business risk profiles of C. L. Enterprises Private Limited (CLEPL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), Galsi Commercial Farms LLP (GCFL, rated at [ICRA]A+ (Stable)), Infinity Feeds Private Limited (IFPL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), Shalimar Hatcheries Limited (SHL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), Shalimar Nutrients Private Limited (SNPL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), Shalimar Pellet Feeds Limited (SPFL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), Sona Nutrients Private Limited (SONPL, rated at [ICRA]A+ (Stable)), Sona Vets Private Limited (SVPL, rated at [ICRA]A+ (Stable)/ [ICRA]A1) and Utkal Feeds Private Limited (UFPL, rated at [ICRA]A+ (Stable)/ [ICRA]A1), referred to as the Shalimar Group/ Group, given the close business, financial and managerial linkages among them. Moreover, CLEPL, SHL, SNPL, SPFL and SVPL have extended corporate guarantees to other entities among the Group for availing bank facilities.

The upgrade in the long-term rating factors in the substantial growth in the Group's top line along with the significant improvement in the earnings witnessed in FY2024 (provisional numbers [P]) on a YoY basis, which ICRA expects to continue in the medium term, given the continuous capacity addition and backward as well as forward integration initiatives adopted by the Group, supported by favourable domestic demand prospect of the organised poultry sector. The improvement in the overall profits and cash accruals from business in FY2024 over the previous fiscal positively impacted the coverage metrics of the company. Although some moderation is expected in the medium term due to the ongoing capex, the same are likely to remain at a comfortable level.

The ratings continue to factor in the established presence of the Shalimar Group in the poultry and related businesses and operational linkages among the Group entities, which support its market position. ICRA also notes the Group's relatively larger scale and 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. This has helped the Group in achieving operational efficiency over the years and strengthen its market position. The ratings continue to derive comfort from the favourable financial risk profile of the Group, characterised by a conservative capital structure and comfortable debt coverage metrics, which though may moderate to some extent, are likely to remain comfortable in the near-to-medium term. In FY2024 (P), the consolidated operating income of the Group grew by around 20% on a YoY basis, supported by a robust growth in sales volume of broiler birds. The operating margin of the Group improved to

5.7% in FY2024 (P) from 3.5% in FY2023, on the back of softening of raw material costs and stable broiler realisations. ICRA expects the Group's healthy revenue growth to continue, and margin to remain stable, in FY2025 as well.

The ratings, however, are constrained by the susceptibility of the Group's margin to the highly volatile feed prices, which depend on agro-climatic conditions (maize and soya being the main raw materials for poultry feed manufacturing), international prices and Government interventions in terms of minimum selling prices etc. The current fiscal has started with a positive note of relatively lower level of soya and maize prices. This is likely to support the profitability of all the integrators in the poultry industry, including the Shalimar Group. While arriving at the ratings, ICRA has also noted the volatility in broiler realisations due to the seasonal nature of demand of poultry products in India, which has a significant bearing on the Group's profitability. The Group, like other entities in the poultry and related business, is also exposed to the inherent risk of disease outbreak (bird flu). However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to some extent.

The Stable outlook on the long-term rating reflects ICRA's opinion that the established presence of the Shalimar Group in the poultry business for over four decades would continue to support its business position and the profitability level in the long run. Besides, the financial risk profile of the Group is likely to remain comfortable, going forward, along with adequate cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Favourable long-term growth prospects of the organised poultry sector – Structural drivers like earnings volatility due to vulnerability to raw material prices and increasing capital investment requirements augur well for the growth of the organised poultry industry. The organised players' ability to invest in advanced technologies for quality and efficiency improvement, focus on enhancing vertical integration and economies of scale also provide a competitive edge over the unorganised players. The changing eating habits with increasing urbanisation and growing penetration of quick service restaurants are also supporting the demand for value-added products like ready-to-cook and ready-to-eat poultry products. These synchronise well with the Group's current capex for backward/ forward integration plan.

Established presence of the Shalimar Group in poultry and related businesses – The Shalimar Group has a dominant presence in the poultry industry, primarily in the eastern and north-eastern parts of India. The Group has been involved in this line of business for over four decades and has multiple business divisions, which include soya solvent extraction, refining, manufacturing of poultry feed, breeder farming, hatchery, broiler farming, layer farming and chicken processing. The Group sells its value-added products under the brand name, TOTAL, viz. Total Chicken (processed chicken), Total Gold (soya refined oil), Total Supreme, Total Classic (packaged eggs) etc. ICRA believes that the integrated operations of the Group, spanning across refinery and manufacturing of poultry feeds to broiler farming and processed chicken, help it to have a greater control over the cost as well as the quality of the produce. The integrated operations of the Group provide significant competitive advantages over other unorganised players, as reflected by a marked improvement in the overall scale of operations and earnings over the years.

Well-integrated presence across the value chain, supporting its increasing scale of operations and earnings – The Group has presence across the value chain of the poultry industry. The Group has a company, which produces soya de-oiled cake (soya DOC) and around 95% of the Group's requirement for soya DOC for manufacturing the poultry feed is sourced internally. Further, 100% of the Group's poultry feed requirement is met internally, and the excess feed produced is sold in the open market. These enable the Group to have a better control on the quality of the feed. However, the Group depends on external sources to meet its requirement for hatching eggs as its in-house capacity is not sufficient to meet its entire requirement, exposing the Group's profitability to any adverse movement in hatching egg prices. Nevertheless, dependence on external sources for procuring hatching eggs has gradually reduced over the years from around 65% in FY2018 to around 40% in FY2024 because of the planned expansion made by the Group in the breeder farming capacity. Although Shalimar's major portion of the revenue comes from the sale of broilers, it also has a unit for processed and frozen chicken at Galshi, Burdwan. The top line of the Shalimar Group witnessed a steady growth over the past few years, primarily driven by an increase in the volume of sales. ICRA notes that regular addition in production capacity led to an overall growth in its operating income over the past years. The operating income of the Group rose to around Rs. 5,054 crore in FY2024 (P) from around Rs. 2,459 crore in FY2020. Despite a marginal decline in realisation, a sharp increase in the volume of sales of live birds (~30%) resulted in around 20% growth in the Group's turnover in FY2024 (P) over the previous fiscal. The Group has an integrated presence across the value chain through various entities, resulting in strong operational efficiencies. ICRA expects that an increase in the overall volume of sales of various products is likely to result in a sizeable growth of 12-14% in its top line in FY2025 and 17-18% in FY2026, on a YoY basis. The Group has also undertaken a few capital expenditure (capex) programmes both towards backward and forward integration to increase the capacity of feed manufacturing, solvent extraction/ refinery, breeder farming, hatching, layer farming, broiler farming and chicken processing. A major portion of the term loans for the proposed capex programme has already been tied up. However, execution of the planned capex within the budgeted cost and estimated timeframe will remain critical from the credit perspective. Nevertheless, ICRA believes that the integrated operations of the Group, spanning across refinery and manufacturing of poultry feeds to broiler farming and processed chicken, help it to have a greater control over the cost as well as the quality of the produce.

Favourable financial risk profile characterised by a conservative capital structure and comfortable debt coverage metrics – The capital structure of the Group continues to remain conservative on account of a healthy net worth and limited external borrowings. The consolidated gearing and TOL/TNW stood at 0.6 times and 0.9 times, respectively as on March 31, 2024 (P). In view of debt-funded proposed capital expenditure programme, the overall debt level of the Group is likely to increase to an extent over the next two years. Nevertheless, the capital structure would continue to remain at a conservative level, going forward, on the back of heathy accretion to reserves. Despite some likely moderation, the coverage indicators would continue to remain comfortable, going forward, owing to healthy profits as well as cash accruals and a low gearing.

Credit challenges

Profitability vulnerable to movement in raw material prices – The major raw materials required for poultry feed are maize and soya de-oiled cake. SNPL has solvent extraction facilities for manufacturing soya de-oiled cake from soya seeds, which meets a portion of the inputs required to manufacture feeds, rendering the benefit of backward integration. However, the prices of raw materials (maize and soya seeds) remain volatile on the back of fluctuation in domestic production due to dependence on agro-climatic conditions, international prices, government regulations, and demand from the animal husbandry sector, which is susceptible to seasonality. A sharp increase in the prices of maize along with some moderation in realisation resulted in a contraction of the Group's consolidated operating margin to 3.5% in FY2023 from 4.3% in FY2022. The same, however, witnessed a significant improvement to 5.7% in FY2024 (P), aided to some extent by softening of maize and soya prices and stable realisations. However, the profitability of the Shalimar Group, like other entities in the poultry business, will continue to remain vulnerable to the movement in feed prices.

Margin susceptible to high volatility in broiler realisations – As inherent in the industry, the broiler realisations vary considerably across geographies and are impacted by the seasonality as well as local supply dynamics. Volatility in broiler realisations, due to the seasonal nature of demand of poultry products in India, has a bearing on the profitability of all integrators. In the past, the Indian poultry industry has been periodically affected by unfavourable broiler realisations owing to the seasonal nature of demand of poultry products in India and occasional over-supply situation in the market. The broiler realisation witnessed a marginal decline in FY2023 on a YoY basis and the same remained almost stagnant in FY2024 (P). In Q1 FY2025, broiler realisation was almost higher by 7-8% on a YoY basis, however, sustainability of the same remains to be seen.

Exposed to the inherent industry risk of disease outbreak – The Group, like other entities in the poultry and related businesses, remains exposed to the inherent industry risk of disease outbreak (bird flu or avian influenza). However, ICRA notes the various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent.

Liquidity position: Adequate

The Group generated positive cash flow from operations in FY2024 (P), despite a sizeable increase in the scale of operations, supported by a marginal decline in the working capital intensity of operations. Further, the Group's cash flow from operations is estimated to remain healthy in FY2025. The Group's overall working capital utilisation stood at a moderately low level of around 41% during the last 15 months, ended in August 2024, leaving enough room for future working capital requirement. The Group has a few planned capital expenditure over the next two years, which adds up to around Rs. 300 crore. The same would be funded through a mix of bank loans, internal accruals and contribution from the promoters/ Group entities. The Group has long-term debt repayment obligations of Rs. 30-40 crore over the next two years. The Group is expected to generate cash accruals of more than Rs. 220 crore in FY2025, which along with undrawn working capital limits and surplus cash/ bank balance would be adequate to meet its incremental working capital requirements, long-term debt repayment obligations and proposed capital expenditure. ICRA expects the overall liquidity position of the Shalimar Group to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings if there is a significant increase in revenues, profits and cash accruals, resulting in an improvement in the liquidity profile of the Group on a sustained basis.

Negative factors – ICRA may downgrade the ratings if there is a significant deterioration in the Group's profitability and/or an unanticipated large debt-funded capital expenditure, adversely impacting the Group's credit profile on a sustained basis. Specific credit metric that may trigger ratings downgrade include a consolidated interest coverage of less than 5.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Edible Oil
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated business risk profiles of various Group entities (as mentioned in Annexure – II), given the close business, financial and managerial linkages among them.

About the company

Incorporated in 1994, SHL is primarily involved in breeder farming, hatching, broiler farming and chicken processing. The operations of the company are spread across West Bengal, Uttar Pradesh, Rajasthan, Bihar and Jharkhand. The company has a breeding capacity of 4,00,000 parent birds, a hatching capacity of 40 lakh eggs per week and a broiler farming capacity of around 32 lakh chicks per week. Besides, the company has two chicken processing units with a capacity of 6,000 birds per hour at Purba Bardhaman, West Bengal.

The company is a part of the Shalimar Group based in 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)

SHL	Shalimar Hatcheries Limited – Standalone			Shalimar Group – Consolidated		
	FY2022	FY2023	FY2024*	FY2022	FY2023	FY2024*
Operating income	1,672.8	2,176.7	2,880.9	3,461.4	4,210.6	5,053.5
PAT	13.0	13.5	57.1	87.0	69.3	169.5
OPBDIT/OI	1.9%	1.7%	3.3%	4.3%	3.5%	5.7%
PAT/OI	0.8%	0.6%	2.0%	2.5%	1.6%	3.4%
Total outside liabilities/Tangible net worth (times)	0.8	1.4	1.9	0.7	0.8	0.9
Total debt/OPBDIT (times)	1.8	1.2	1.6	1.8	2.9	1.9
Interest coverage (times)	10.9	5.3	13.6	11.1	4.6	7.5

*Source: C. L. Enterprises Private Limited, Galsi Commercial Farms LLP, Infinity Feeds Private Limited, Shalimar Hatcheries Limited, Shalimar Nutrients Private Limited, Shalimar Pellet Feeds Limited, Sona Nutrients Private Limited, Sona Vets Private Limited, Utkal Feeds Private Limited, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Sep 27, 2024	Jun 12, 2023	Apr 7, 2022	-
1	**Fund-based – Working Capital Facilities**	Long Term	90.62	**[ICRA]A+ (Stable)**	[ICRA]A (Stable)	[ICRA]A (Stable)	-
2	**Term Loan**	Long Term	179.40	**[ICRA]A+ (Stable)**	[ICRA]A (Stable)	[ICRA]A (Stable)	-
3	**Non-Fund based – Working Capital Facilities**	Short Term	7.60	**[ICRA]A1**	[ICRA]A1	-	-
4	**Non-Fund based Limits – Interchangeable**	Short Term	(2.00)	**[ICRA]A1**	[ICRA]A1	[ICRA]A1	
5	**Unallocated Limits**	Long Term/ Short-term	3.38	**[ICRA]A+ (Stable)/ [ICRA]A1**	[ICRA]A (Stable)/ [ICRA]A1	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital Facilities	Simple
Long-term fund-based – Term Loan	Simple
Short-term non-fund based – Working Capital Facilities	Very Simple
Short-term non-fund based – Interchangeable	Very Simple
Unallocated Limits	Not applicable

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	Fund-based Working Capital Facilities 1	-	-	-	32.00	[ICRA]A+ (Stable)
NA	Fund-based Working Capital Facilities 2	-	-	-	30.00	[ICRA]A+ (Stable)
NA	Fund-based Working Capital Facilities 3	-	-	-	10.00	[ICRA]A+ (Stable)
NA	Fund-based Working Capital Facilities 4	-	-	-	12.00	[ICRA]A+ (Stable)
NA	Fund-based Working Capital Facilities 5				0.62	[ICRA]A+ (Stable)
NA	Fund-based Working Capital Facilities 6	-	-	-	6.00	[ICRA]A+ (Stable)
NA	Term Loan 1	FY2025	-	FY2031	14.90	[ICRA]A+ (Stable)
NA	Term Loan 2	FY2025	-	FY2031	51.00	[ICRA]A+ (Stable)
NA	Term Loan 3	FY2025	-	FY2030	20.00	[ICRA]A+ (Stable)
NA	Term Loan 4	FY2023	-	FY2032	25.00	[ICRA]A+ (Stable)
NA	Term Loan 5	FY2023	-	FY2032	23.50	[ICRA]A+ (Stable)
NA	Term Loan 6	FY2025	-	FY2031	5.00	[ICRA]A+ (Stable)
NA	Term Loan 7	FY2024	-	FY2031	40.00	[ICRA]A+ (Stable)
NA	Non-Fund-based Working Capital Facilities 1	-	-	-	7.00	[ICRA]A1
NA	Non-Fund-based Working Capital Facilities 2	-	-	-	0.60	[ICRA]A1
NA	Non-Fund-based Interchangeable Limits	-	-	-	(2.00)	[ICRA]A1
NA	Unallocated Limits	-	-	-	3.38	[ICRA]A+ (Stable)/ [ICRA]A1

Source: Shalimar Hatcheries Limited

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

Annexure II: List of entities considered for consolidated analysis

Company Name	SHL's Ownership	Consolidation Approach
C. L. Enterprises Private Limited	-	Full Consolidation
Galsi Commercial Farms LLP	92.00%	Full Consolidation
Infinity Feeds Private Limited	-	Full Consolidation
Shalimar Nutrients Private Limited	-	Full Consolidation
Shalimar Pellet Feeds Limited	-	Full Consolidation
Sona Nutrients Private Limited	-	Full Consolidation
Sona Vets Private Limited	-	Full Consolidation
Utkal Feeds Private Limited	-	Full consolidation

Source: C. L. Enterprises Private Limited, Galsi Commercial Farms LLP, Infinity Feeds Private Limited, Shalimar Hatcheries Limited, Shalimar Nutrients Private Limited, Shalimar Pellet Feeds Limited, Sona Nutrients Private Limited, Sona Vets Private Limited and Utkal Feeds Private Limited

Note: ICRA has taken a consolidated view of the above-mentioned entities, referred to as Shalimar Group/ Group while assigning the rating(s).

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