

## Rating Advisory

August 24, 2020 | Mumbai

### Kamdhenu Udyog Private Limited

#### Advisory as on August 24, 2020

This rating advisory is provided in relation to the rating of Kamdhenu Udyog Private Limited

The key rating sensitivity factors for the rating include:

#### Upward Factors

- Steady increase in revenue and in operating margin to 4%, leading to higher cash accrual
- Sustenance of financial risk profile with TOLTNW ratio remaining below 2 times

#### Downward factors

- Fall in revenue lower than Rs 250 crs or decline in operating margin below 1% leading to lower net cash accrual
- Increase in debt, resulting in gearing of over 1.5 time

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Kamdhenu Udyog Private Limited (KUPL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If KUPL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circulars SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt. Nov 1, 2016, SEBI/HO/MIRSD/MIRSD4/CIR/P/2017/71 dt. June 30, 2017 and SEBI/HO/MIRSD/CRADT/CIR/P/2020/2 dt. January 3, 2020 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

#### **About the company**

Incorporated in 2000 and promoted by the Kolkata-based Agarwal family, KUPL is engaged in the poultry segment. Its operations are vertically integrated and include hatcheries, broiler farms, and a feed mill.

*Please note: This advisory should not be construed as a rating reaffirmation.*

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## Rating Rationale

March 24, 2020 | Mumbai

### Kamdhenu Udyog Private Limited

*Rating outlook revised to 'Negative'; ratings reaffirmed*

#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.7 Crore</b>
<b>Long Term Rating</b>	<b>CRISIL BBB-/Negative (Outlook revised from 'Stable' and rating reaffirmed)</b>
<b>Short Term Rating</b>	<b>CRISIL A3 (Reaffirmed)</b>

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

#### Detailed Rationale

CRISIL has revised its outlook on the long term bank loan facilities of Kamdhenu Udyog Private Limited (KUPL) to **'Negative'** from 'Stable' while reaffirming the rating at **'CRISIL BBB-'**. The short term rating has been reaffirmed at **'CRISIL A3'**.

The rating action follows measures taken by various state governments towards containment of COVID-19 which includes temporary closure of non-critical establishments, inter-state transportation etc. along-with advisory against travel and visiting areas of mass gatherings. These measures are likely to impact the business profile of the company with lower consumption of poultry items and thereby may have an impact on its credit quality, especially liquidity position. While, most of the state government's measures are applicable till March 31, 2020, revocation of the measures will be contingent upon directive from the Central government and extent of spread of COVID-19. A sustained long period of closures can result in significant deterioration in credit profiles of firms. On the other hand, a faster reversal to normalcy may contain the extent of deterioration likely in credit quality of firms. That said, the ability of the business to revert back to operational stability and any relief measures given by the government will be a key monitorable, and CRISIL will continue monitoring these events.

The ratings continue to reflect the extensive experience of the promoters in the poultry industry and the company's healthy financial risk profile. These strengths are partially offset by modest operating profitability, susceptibility to inherent industry risks, exposure to intense competition, and volatility in raw material prices.

#### Key Rating Drivers & Detailed Description

##### **Strengths:**

**\*Experience of the promoters:** KUPL is managed by the Kolkata-based Agarwal family, which has been in the feed manufacturing and broiler farming business for over two decades. The promoters have built healthy relationships with suppliers and customers, which should continue to support the business risk profile.

**\*Healthy financial risk profile:** TOL/TNW and networth are expected to remain at 1.75 times and Rs 24.78 crs respectively in fiscal 2020 against TOL/TNW of 2.05 time and Rs 21.02 crore, respectively, as on March 31, 2019. Debt protection metrics are expected to remain comfortable, with interest coverage and net cash accrual to total debt ratio of 10.48 times in fiscal 2020 as against 11.72 times for fiscal 2019.

##### **Weakness:**

**\*Vulnerability to risks inherent in the poultry industry:** The poultry industry frequently witnesses outbreaks of diseases leading to decline in realisations and profitability. Recent impact of COVID 19 has resulted in decline in consumption of poultry products which has resulted in weakening of demand and sharp fall in prices.

**\*Modest operating profitability and susceptibility to intense competition and volatility in raw material prices:** Operating margin is estimated at 1.5-1.8% for the medium term, and is susceptible to increase in the price of maize, soya, mustard oil cake, bajra, and paddy husk, which are agricultural products. Also, presence of several players in the industry due to low entry barriers intensifies competition.

## Liquidity Adequate

The company is likely to generate cash accrual of Rs 2.5-5 crore per fiscal which will be sufficient to meet term debt obligation of Rs 0.90 crore each in fiscals 2020 and 2021. Fund-based bank limit of Rs 6.96 crore was utilised 65% on an average over the 12 months through January 2020. Current ratio was healthy at 1.34 times as on March 31, 2019.

## Outlook: Negative

CRISIL believes the business risk profile of the company would is likely to remain constrained due to weakening of demand and fall in prices which would result in lower scale and profitability over the medium term.

## Rating Sensitivity factors

### Upward Factors

\*Steady increase in revenue and in operating margin to 4%, leading to higher cash accrual

\*Sustenance of financial risk profile with TOLTNW ratio remaining below 2 times.

### Downward factors

\*Fall in revenue lower than Rs 250 crs or decline in operating margin below 1% leading to lower net cash accrual

\*Increase in debt, resulting in gearing of over 1.5 time.

## About the Company

Incorporated in 2000 and promoted by the Kolkata-based Agarwal family, KUPPL is engaged in the poultry segment. Its operations are vertically integrated and include hatcheries, broiler farms, and a feed mill.

## Key Financial Indicators

As on/for the period ended March 31	Unit	2019	2018
Operating income	Rs crore	411.49	317.55
Reported profit after tax	Rs crore	5.17	5.85
PAT margin	%	1.26	1.84
Adjusted debt/adjusted networth	Times	0.26	0.41
Interest coverage	Times	11.75	10.25

Any other information: Not applicable

## Note on complexity levels of the rated instrument:

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## Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit	NA	NA	NA	6.96	CRISIL BBB-/Negative
NA	Proposed Non-Fund-Based Limits	NA	NA	NA	0.04	CRISIL A3

## Annexure - Rating History for last 3 Years

Instrument	Type	Current		2020 (History)		2019		2018		2017		Start of 2017
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	6.96	CRISIL BBB-/Negative			06-12-19	CRISIL BBB-/Stable	21-12-18	CRISIL BB+/Positive	08-06-17	CRISIL BB+/Stable	CRISIL BB/Stable
								09-10-18	CRISIL BB+/Stable (Issuer Not Cooperating)*			
Non Fund-based Bank Facilities	LT/ST	0.04	CRISIL A3			06-12-19	CRISIL A3	21-12-18	CRISIL A4+	08-06-17	CRISIL A4+	CRISIL A4+
								09-10-18	CRISIL A4+ (Issuer Not Cooperating)*			

All amounts are in Rs.Cr.

\*Issuer did not cooperate; based on best-available information

## Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit	6.96	CRISIL BBB-/Negative	Cash Credit	6.96	CRISIL BBB-/Stable
Proposed Non Fund based limits	.04	CRISIL A3	Proposed Non Fund based limits	.04	CRISIL A3
<b>Total</b>	<b>7</b>	<b>--</b>	<b>Total</b>	<b>7</b>	<b>--</b>

### Links to related criteria

[CRISILs Approach to Financial Ratios](#)

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