

RATING RATIONALE

15 Oct 2019

DSM Poultry & Feeds

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 6.08 Crores of DSM Poultry & Feeds (DSM or ‘The Firm’)

Particulars:

Facility	Amount (₹ Crs)		Tenure	Previous Rating (June 2018)	Rating Present*
	Previous	Present			
Fund based	8.28	6.08	Long Term	BWR B (Stable)	BWR B (Stable) (Reaffirmed)
Total	8.28	6.08	Rs. Six Crore and Eight Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

**Annexure-I provides details of bank wise facilities

RATING ACTION / OUTLOOK

BWR has reaffirmed the rating of DSM Poultry & Feeds at BWR B with a stable outlook driving strength from experienced partners.

The Rating has been assigned a stable outlook as the business risk profile of the company is stable and the growth in the business and profitability is expected to be maintained in the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced management**

The Firm benefits from the partner’s decade long experience in the poultry business and



established relationships with customers and suppliers which support business growth.

Credit risks:

- **Small scale of operations and weak business and credit risk profile:** DSM's scale operations is low with net sales of Rs. 5.10 Crs in FY19. The business risk profile is weak with low profitability of Rs. 0.05 Crs for FY19. Due to limited capital support by the partners, the gearing of the firm was high at 4.53 times as on March 31, 2019.
- **Below Benchmark Coverage Ratio:** Due to low profit margins and high debt payments, coverage ratio is below benchmark as marked by the low DSCR of 0.71 times for FY19.
- **Presence in a highly fragmented and intensely competitive industry**
The industry is characterised by intense competition and low entry barriers. The Firm faces stiff competition from a large number of organised and unorganised players which limits its pricing flexibility and bargaining power with customers, thereby placing pressure on its revenues and margins and limiting its scale of operations.
- **Vulnerability to risks associated with the poultry industry**
The poultry farming industry is driven by regional demand and supply factors, given the constraints arising from issues of transportation and short shelf life of the products.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward the ability of the Firm to increase its scale of operation, improve its overall business and credit risk profile and its ability to infuse more funds in the business would be the key rating sensitivities.

Positive: Rating may be upgraded in case of substantial improvement in the profit margins and infusion of more funds in the business.

Negative: Rating may be downgraded in case revenues of the company substantially deteriorates from current level. Rating may also be adversely affected in case the company is not

able to improve its net worth and manage the liquidity risks.

LIQUIDITY POSITION (*Poor*)

The liquidity profile of the company is weak due to low cash accruals earned by the company of Rs. 0.44 Crs and low cash and cash equivalents of Rs. 0.20 Crs for FY19. The company is highly dependent on the fund support provided by the promoters and others in the form of USLs and CC limit from bank. Also, due to perishability of the products, the working capital requirements of the business are high. The CC limit utilization is high. Overall liquidity in the system is poor.

COMPANY PROFILE

DSM Poultry & Feeds is a partnership firm established in July 2014 for operating a poultry farm at Amroha district. DSM had started its commercial operations in FY16. Mr. Hitendra Kumar and Mr. Mohit Kumar are the founding partners of the firm, whereas Mr. Devraj Singh and Mr. Pawan Kumar had joined the firm in July 2017. The Firm's revenue is mainly from the sale of eggs to wholesalers and retailers. The Majority of DSM's customers are from Amroha district and nearby towns.

KEY FINANCIAL INDICATORS (in INR Crs)

Key Parameters	Units	2018	2019
Result Type		Audited	Audited
Operating Revenue	₹ Cr	4.25	5.10
EBITDA	₹ Cr	0.68	0.48
PAT	₹ Cr	0.03	0.05
Tangible Net worth	₹ Cr	1.83	2.05
Total Debt/Tangible Net worth	Times	2.58	4.53
Current Ratio	Times	5.18	2.13

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: None
NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : NA

RATING HISTORY

S.No	Instrument /Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2018	2017	2016
1	Fund Based	Long Term	6.08	BWR B (Stable)	BWR B (Stable)	NA	NA
Total			6.08	₹ Six Crore and Eight Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Manufacturing Companies](#)

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**DSM Poultry & Feeds
ANNEXURE I**

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1.	Punjab National Bank	Cash Credit	1.07	-	1.07
2.		Term Loan	5.01		5.01
TOTAL					6.08

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