



INDIAN POULTRY INDUSTRY

Earnings volatility to persist

FEBRUARY 2023





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Over the long term, the business profile of industry players shall be supported by stable demand, while earnings shall remain exposed to vagaries in input prices.



ICRA expects the domestic poultry industry's revenues to grow at a steady pace of 8-10% in FY2024. The growth will be driven by both volumes and realisations. In addition to stable demand, the revenues will be supported by increased penetration of processed chicken and value-added products, which are growing consistently.



High maize prices in the current fiscal have kept poultry feed prices high, while soyabean prices moderated from the peak in FY2022. Overall, earnings of poultry players are expected to be volatile on account of fluctuations in input cost, partially offset through better realisations and improving product mix.



Widespread global bird flu outbreaks over the last few quarters are a cause for concern and a key vulnerability for the Indian poultry industry. As of now, India remains shielded with only a few localised cases witnessed in Kerala in December 2022 and in Jharkhand in February 2023. In the event of a widespread outbreak in the country, the demand may get impacted, resulting in contraction in realisations. With the current high feed costs, the same will adversely impact the profitability of the poultry players.



ICRA expects poultry companies to invest towards forward integration in the medium-term i.e., investments in meat processing plants to enable shift towards higher margin value-added products.



Industry credit profile remains vulnerable to the inherent volatility in earnings profile. Over the medium-to-long term, we expect the demand to be favourable, supported by rising urban population, changing eating habits and growing penetration of quick-service restaurants, while remaining exposed to the inherent seasonality in the business and disease threats.

1 Trend in input prices



2 Trend in realisations



3 Bird flu - a key vulnerability



4 Long-term growth drivers



5 Key challenges and opportunities



6 Peer comparison & ICRA's ratings

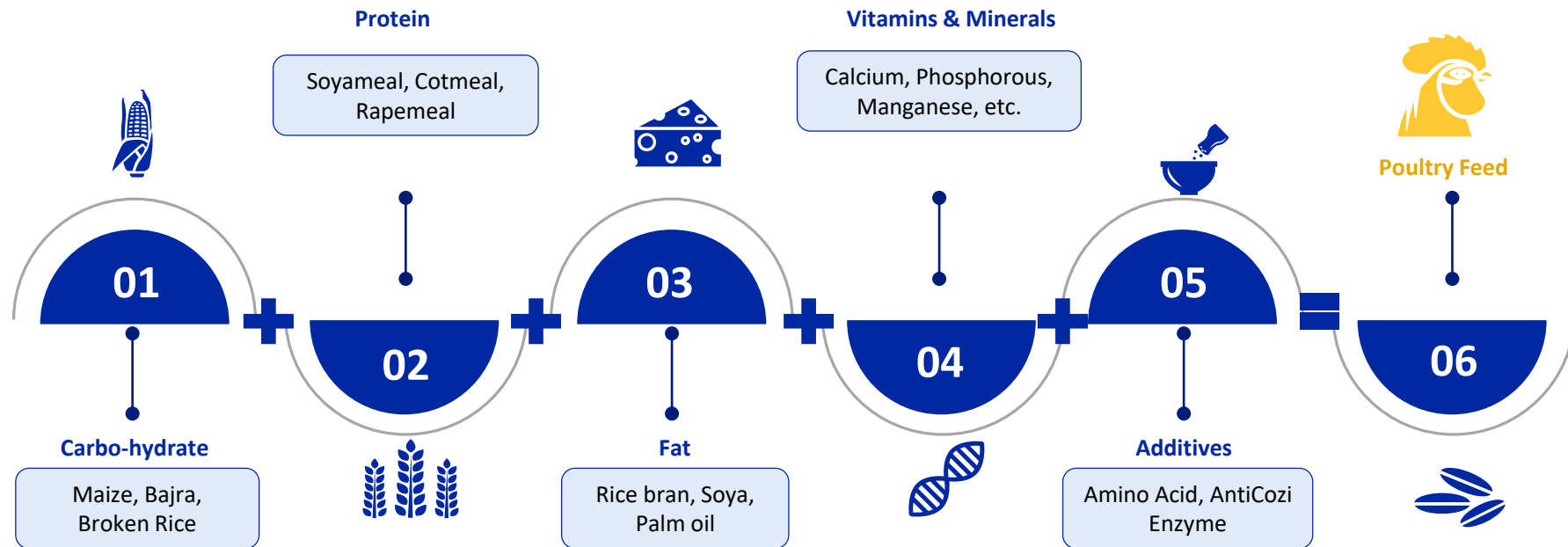




Trend in input prices

High feed prices, led by maize, keep cost structure under pressure

Poultry feed – Maize and soyameal remain key components



- Feed accounts for ~70% of variable cost of poultry players; maize (~65-70%) and soyameal (~30%) account for bulk of feed cost, with the balance being other additives.
- Maize can be substituted with bajra and broken rice to a large extent; however, soyameal remains the preferred protein source for poultry as the other alternatives such as groundnut cake and rapemeal have lower efficacy.

Higher maize prices keep cost structures under pressure

Exhibit: Domestic maize price (Rs/Kg)

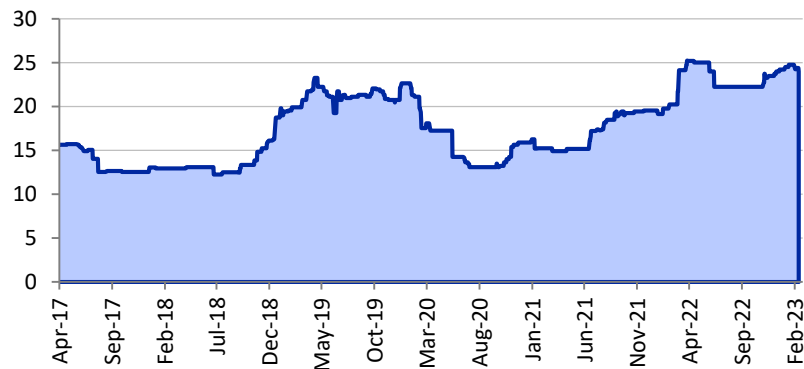
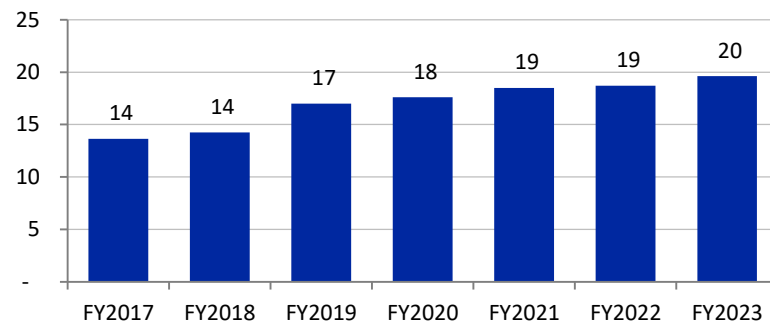


Exhibit: Trend in domestic maize MSP (Rs/Kg)



- Domestic maize prices continued to increase in FY2023 amid higher global demand for Indian maize, pursuant to the Russia-Ukraine war outbreak and increased exports from India. Diversion of grains towards ethanol blending has also been supporting the growing demand for maize. Further, some crop damage post monsoon and rising minimum support price (MSP; ~5% higher in current fiscal) has led to price rise. In 9M FY2023, maize prices rose considerably by ~32% on a YoY basis.
- Notwithstanding the rising maize prices, ability of the companies to use other alternates as a source of carbohydrates for poultry feed lends some respite in a period of significantly elevated prices. Prices for substitutes like broken rice were also high until the Government stepped in during FY2023 by imposing a ban on broken rice exports, which is a positive.
- A better crop acreage in the next season of maize encouraged by strong realisations to farmers in the current season could normalise prices. However, crop quality, quantum of exports and ethanol blending-related demand would be some of the key determinants of prices in the near to medium term.

Source: Bloomberg; ICRA Research; Spot prices per MT for feed grade maize

Domestic soyabean prices have moderated

Exhibit: Domestic soyabean price (Rs/Kg)

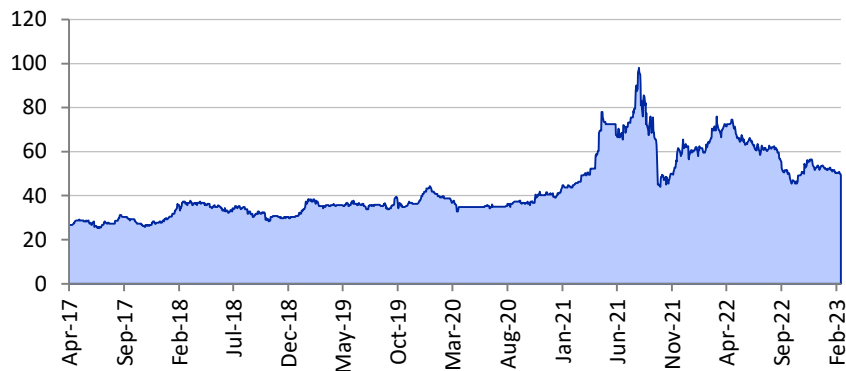
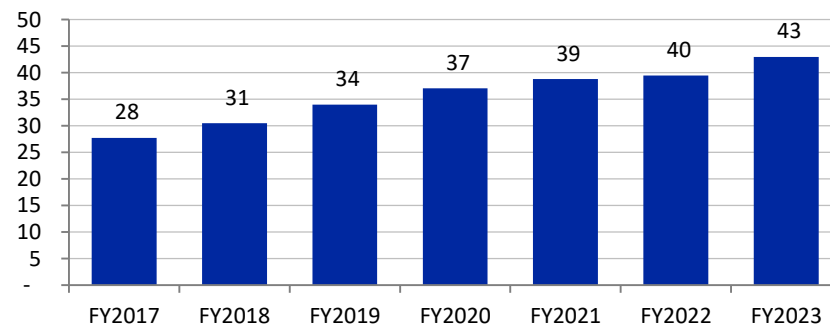


Exhibit: Trend in domestic soyabean MSP (Rs/Kg)

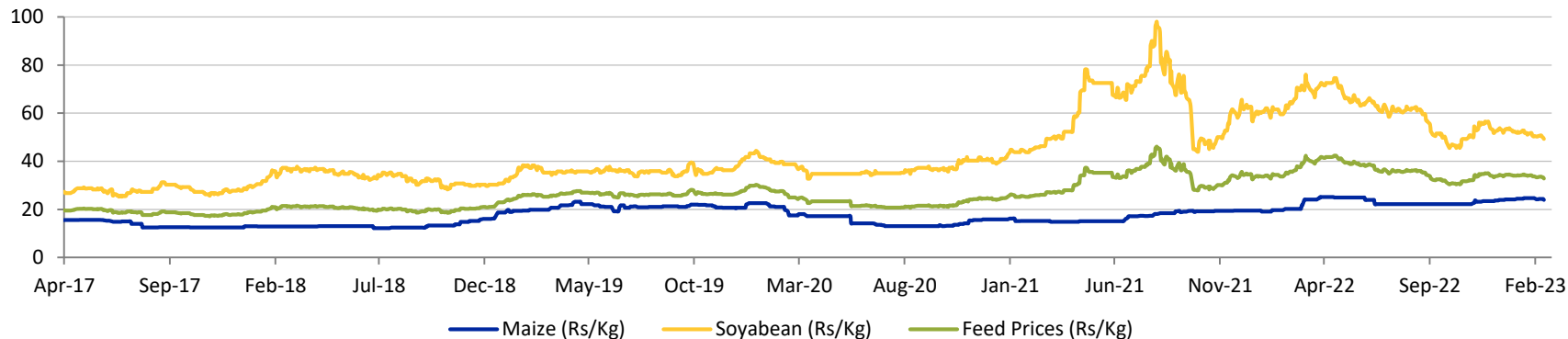


- In 9M FY2023, soyabean prices declined by ~11% YoY after remaining substantially high in the previous fiscal due to high exports and supply constraints.
- The prices have now stabilised in the range of Rs. 50-55/kg from the peak of Rs. 98/kg in the month of August 2021.
- Similar to maize, MSP for soyabean have also been increasing. This apart, international prices, export demand and changing Government regulations related to soyabean exports and domestic stockholding are important influencers of soyabean prices. In November 2022, the Government lifted the earlier imposed ban on stocking of soyameal by industry players, which buttressed prices. Soyameal imports are another lever available to poultry players if and when allowed by the Government.

Source: Bloomberg; ICRA Research; Spot prices per MT for feed grade soyabean

Feed prices have remained high; players to focus on operating efficiencies

Exhibit: Movement in feed prices (Rs./ Kg)



- While maize does have substitutes as a feed constitute, soyabean remains a preferred source of protein as its substitutes have side effects of high mortality and low weight gain. Therefore, it has significantly influenced feed prices over the last two fiscals owing to sharp price changes.
- Average feed prices increased by ~3% in 9M FY2023 on a YoY basis to ~Rs. 36/kg. However, the realisations have also been supportive in this fiscal.
- In the backdrop of high feed costs, poultry companies are focusing on enhancing operating efficiencies, by improving feed conversion ratios (FCR), which signify higher bird weight gain as a percentage of feed utilised. Moreover, backward and forward integration initiatives continue to increase control on costs and selling price.

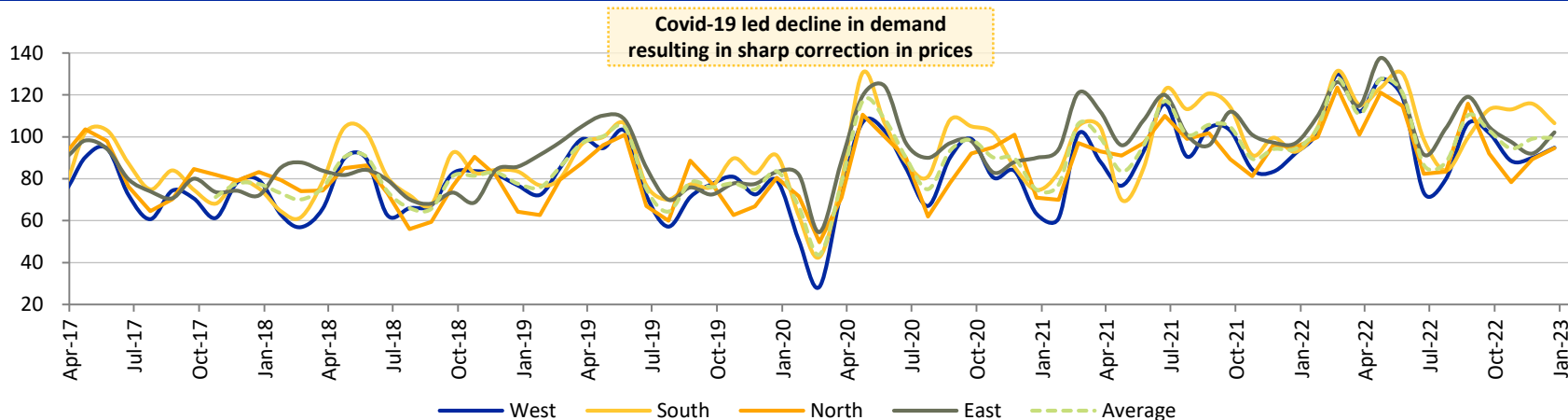


Trend in realisations

Increase in realisations supported by improving demand scenario and high feed prices

Average broiler prices up in FY2023 led by stable demand and high feed costs

Exhibit: Broiler price movement in various regions (In Rs/Kg)

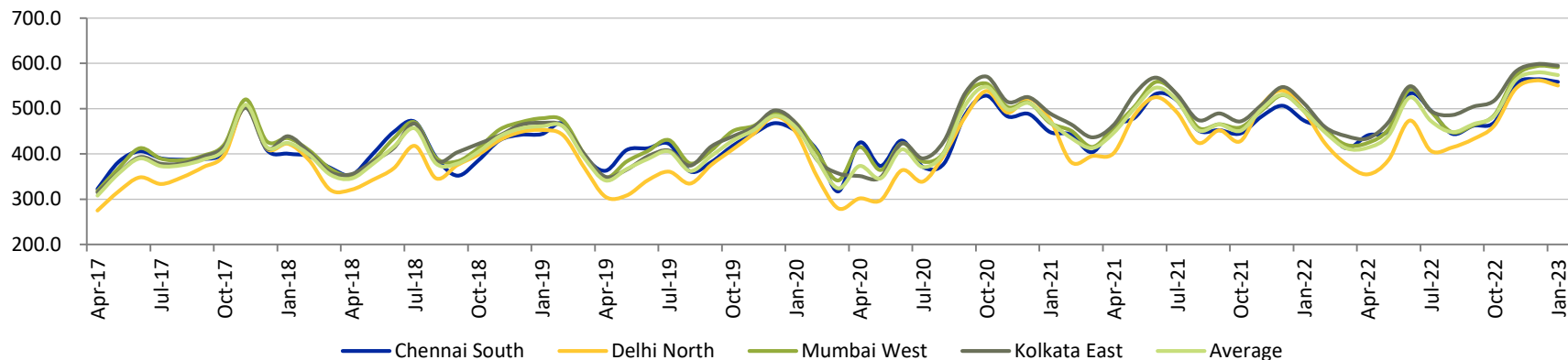


- Poultry meat demand varies depending on season and religious factors, which keep broiler prices volatile. After the Ukraine-Russia war, high feed prices underpinned poultry meat prices; however, in recent months, healthy demand has also been supporting broiler prices.
- In 9M FY2023, average broiler prices increased by ~5% on a YoY basis to ~Rs. 104/ kg and are expected to remain range-bound till the end of FY2023. The price increase has been more pronounced in East and South India.
- Localised incidences of bird flu have been reported in Kerala in December 2022 and in Jharkhand in February 2023, which may have temporary effects on demand and realisations.

Source: Poultrybazaar, industry data; Note: Indicative average farm gate broiler per kg

Egg prices surge on global demand

Exhibit: Table egg price trend - Rs. per 100 eggs



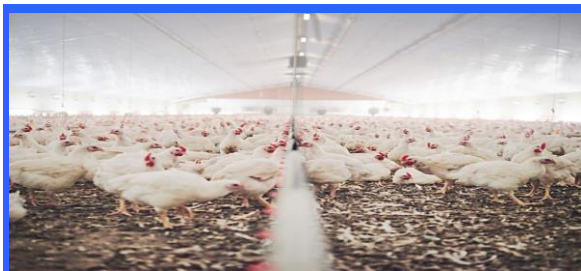
- Unlike the moderate rise in domestic poultry meat prices, egg prices have been rising on account of peak global demand. While part of the ongoing price surge is seasonal, with winter being the peak demand period, imports, particularly from Malaysia, and global supply pressures on account of bird flu outbreaks in some countries, has been driving Indian export demand.
- While egg prices witnessed a 9.2% uptick on a YoY basis in 9M FY2023, they surged ~40% in the period between April and December 2022. The prices peaked in the months of November-December 2022 and are expected to remain elevated in the near term.
- High feed prices over FY2022 and FY2023 resulted in high input costs for layer farmers too. In addition, production of table eggs is estimated to have been cut back by small regional players due to adverse cost structure, which in turn supported egg prices over this period. India's per capita egg consumption increased materially to ~93 eggs in CY2022 from 29 in CY2000. However, it still remains much lower than 180 eggs recommended by the National Institute of Nutrition; thus long-term demand is expected to be favourable.

Source: National Egg Coordination Committee (NECC); ICRA Research



Bird flu - a key vulnerability

Widespread incidences of bird flu in key nations in FY2023; India still shielded



Key factors making India vulnerable

- High density of poultry population
- Mixed rearing of chicken and ducks
- Migratory birds passing through the country
- Uncontrolled movement of poultry products
- Inadequate bio-security in backyard rearing; investment towards bio-security remains critical



Trend in India

- India is vulnerable - sporadic instances being reported from time to time
- Outbreaks generally peak around winter
- Immediate sentimental effect on broiler prices
- Growing awareness among producers and consumers, leading to lesser extent of demand shocks



Efforts to contain/mitigate outbreak

- Investment towards bio-security
- Central and state governments have been taking prompt actions like issuing prohibitory orders including culling instructions to contain the disease and prevent further spread

Widespread outbreak in other countries; India still shielded

Recent localised instances witnessed in Kerala. Globally, US and Europe are going through one of the worst bird flu outbreaks



Instances of widespread avian influenza are being witnessed across the US since February 2022, resulting in deaths of tens of millions of poultry. Europe is also witnessing its worst bird flu outbreak, resulting in an increase in poultry and egg prices. Several incidences have also been witnessed in the UK, France and Spain.



In December 2022, incidents of bird flu have also been reported in India – in Thiruvananthapuram district in Kerala. Farmers in the district started culling birds to contain the infection. Caution has been sounded in other districts of Kerala as well. Recently in February 2023, an isolated case was witnessed in Jharkhand as well.



In the event of a widespread outbreak in the country, the demand may get impacted, resulting in much lower realisations. With the current high feed costs, the same will adversely impact the profitability of the poultry players.



However, in the past, it has been noted that fall in domestic demand for poultry due to such outbreaks does not last long and has only a temporary bearing on poultry supply and prices in and around the affected area.



Long-term growth drivers

Low per capita consumption and evolving eating habits support demand prospects

Per capita consumption of poultry meat in India remains low

Exhibit: Poultry meat production and consumption for key countries

Production			Consumption		Per Capita Consumption	
Million Tonnes			Million Tonnes		kg p.a.	
	CY2021	CY2022E	CY2021	CY2022E	CY2021	CY2022E
USA	20.4	20.5	19.2	19.4	50.8	50.9
Brazil	14.5	14.9	9.9	10.0	40.8	40.7
Argentina	2.3	2.3	2.0	2.0	38.1	38.2
Russia	4.6	4.8	5.1	5.1	30.9	31.0
Mexico	3.8	3.9	4.5	4.6	30.7	30.8
Turkey	2.2	2.4	1.9	1.9	19.5	19.8
China	15.0	15.3	23.0	22.7	14.0	13.8
Thailand	3.2	3.3	0.6	0.6	8.0	8.1
India	4.2	4.5	4.1	4.3	2.6	2.7

- India's per capita poultry meat consumption is substantially below global peers and global per capita consumption of 15 kg per annum.
- Domestic broiler meat production has grown at a CAGR of ~10% over CY2000-CY2022E and per capita consumption grew by ~6% to 2.7 kg per annum over the same period. On the back of favourable socio-economic factors and current low consumption levels, it is expected that consumption will grow, going forward.
- Development of an efficient distribution system with large investments in cold chain infrastructure enabling home deliveries and increasing market acceptability of frozen chicken will drive the increase in per capita consumption in the long term.

Source: USDA, Organisation for Economic Cooperation and Development (OECD); ICRA Research

Evolving eating habits, expanding reach of value-added products to drive growth



Higher protein value supports the growing acceptability of poultry products. India's per capita consumption remains low.

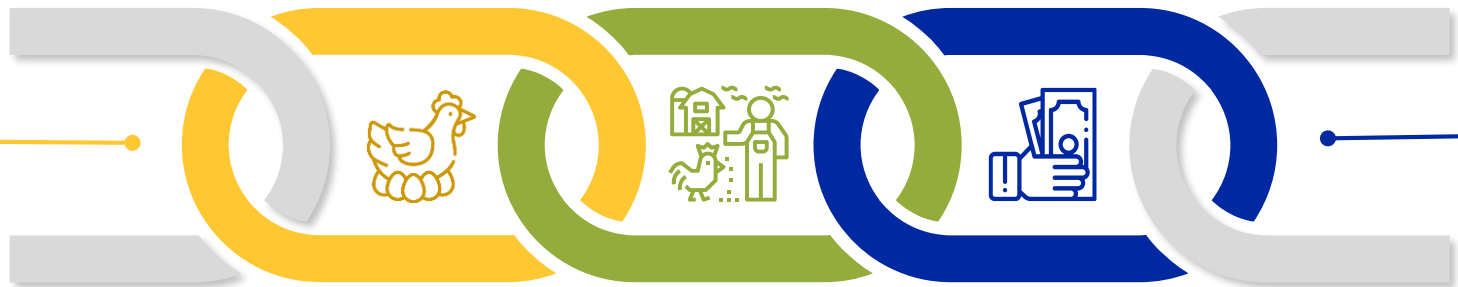
Door-step delivery has improved the penetration of poultry products. Visibility of products has been improving through both online and offline modes, particularly in tier-1 cities.

Changing lifestyles and eating habits with more people eating outside food and availability of value-added products help meat consumption. High pace of growth in quick service restaurants (QSR) format has also bolstered consumption.



Key challenges and opportunities

*Limited shelf life of poultry meat and restricted pricing flexibility;
value-added segment to be the focus area for organised players*



- Vast gap between the current per capita consumption of egg and poultry chicken in India vis-à-vis global standards and consumption recommended by the National Institute of Nutrition.
- Improving efficiency, productivity and bio-security resulting in consistent supply of meat at competitive prices, making poultry a preferred protein choice.

- Value-added products (kebabs, burger, patties etc.) are gaining traction – companies are making investments in processing plants to capture the opportunity.
- Encouraging export potential of processed chicken and table eggs.

Value-added products to be the focus area for most organised players



Volatile feed costs and broiler realisations; ensuring continued self-sufficiency in maize/soyameal is key

- Poultry sector is a high consumer of maize and soyabean; given the steady growth expectations, adequate availability of feed is critical.
- Encouragement for production of ethanol from feedstock such as cereals including corn might result in further increase in maize prices, however, this is at a nascent stage currently.
- Long gestation period for–bird production and limited control on input and output prices make profit margins volatile.



Limited product shelf life of poultry meat

- More than 90% of domestic poultry meat is sold through the wet market, indicating preference towards live bird consumption, thus restricting the product's shelf life.

REVENUE GROWTH



Steady revenue growth

Backed by stable volumes, changing dietary preference, increasing share of processed foods and improved realisations, ICRA expects the revenue to grow at 8-10% in FY2024.

OPM



Earnings volatility to persist

Margins to remain volatile on account of fluctuations in raw material cost, partially offset through better realisations and improving product mix

FUNDING REQUIREMENTS



Debt levels to remain high

With limited internal accrual generation, debt levels to remain high towards working capital needs for feed stock and capex towards setting up feed mills and processing plants

CAPEX



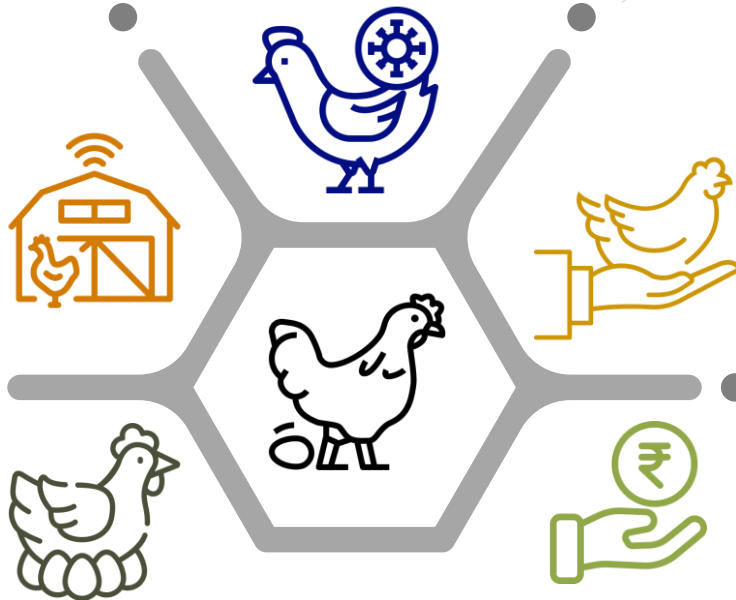
Capacity addition

Regular capacity addition to continue. In medium term, players to focus on forward integration – setting up meat-processing capacities and in select cases retail outlets as well.

Industry's earnings to remain volatile on the back of high feed costs, though stable demand and improving product mix will support credit profile of companies

While soyabean prices moderated, maize prices remained elevated in FY2023, resulting in high feed costs, keeping cost structures under pressure

Broiler prices underpinned by high feed prices and stable demand. Table egg prices soaring on current high export demand



Organised players are focusing on capex to set up processing plants to grow revenues from value-added products apart from improving backward integration

Bird flu vulnerability remains, given widespread outbreaks in other countries in the last few quarters



Peer Comparison

Peer comparison - Operational

	Suguna Foods Private Limited	IB Group (Indian Agro + Abis Exports)	CPF (India) Private Limited	Shalimar group	Japfa Comfeed	Life Line Group
Operational						
Pureline breed	Sunbro	Ross	Cobb	Cobb	AP95	Cobb
Breeding operations	Imports Hubbard GP from Hubbard SA and in-house pure line breed Sunbro	Purchases the grandparent from Aviagen	No grandparent breeding operations. Parent DOCs are procured directly from Venky's and breeds them to obtain broiler DOC	No grandparent breeding operations. Parent DOCs are procured directly from Venky's and breeds them to obtain broiler DOC	Poultry breeding operations consists of sale of live birds through commercial farms, direct sale of day-old chicks (DOCs), sale of hatching eggs, etc.	No grandparent breeding operations. Parent DOCs are procured directly from Venky's and breeds them to obtain broiler DOC
Business	Grandparent, breeder, incubation, broiler, chicken processing, poultry and cattle feed, dairy, soya extraction and refining	Grandparent, parent breeder, broiler, incubation, layer, solvent extraction and refining, poultry feed, pet feed, fish feed, shrimp feed	Poultry, shrimp	Parent breeder, broiler, incubation, solvent extraction and refining, layer, chicken processing, poultry feed	Broiler breeding, rearing, sale of live broiler birds, sale of day-old chicks and hatching eggs	Hatchable eggs, feeds, broiler birds, DOCs, processed and frozen chicken
Geographical concentration	Major revenue from south and eastern parts of India	Major revenue from Madhya Pradesh, Chhattisgarh, Odisha, Maharashtra, Telangana	Major revenue from South India; about 20% from Haryana/ Punjab and Maharashtra	Major revenue from West Bengal and North East India	Major revenue from south and western parts of India	~85% sales in Karnataka and remaining in Tamil Nadu, Kerala, Goa and Bhutan (Exports)

Source: Company Data; ICRA Research

Aggregate financial parameters of Poultry Companies

Parameter (In Rs. Crore)	FY2018	FY2019	FY2020	FY2021	FY2022
Operating Income	23,066.2	26,528.9	27,899.8	30,304.0	38,041.8
Change (%)	20.3%	15.0%	5.2%	8.6%	25.5%
OPBDIT	1,985.1	1,502.5	-274.5	2,470.1	1,171.3
PAT	914.0	591.9	-1,099.1	1,349.9	124.1
NCA	1,301.8	1,016.8	-583.1	1,890.2	638.4
Net Fixed Assets	4,083.8	4,422.9	5,195.6	5,139.6	5,630.4
Tangible Net Worth	4,341.9	4,966.7	4,112.4	5,373.5	5,645.8
Total Debt	2,937.7	3,232.5	4,182.7	4,064.7	5,453.5
Total Capital Employed	7,102.0	8,002.8	7,835.1	9,128.6	10,422.8
Cash & Liquid Investments	309.17	458.28	304.19	639.20	541.21
OPBDIT/OI (%)	8.6%	5.7%	-1.0%	8.2%	3.1%
PAT/OI (%)	4.0%	2.2%	-3.9%	4.5%	0.3%
OI/Gross Block (x)	4.9	5.0	4.5	4.3	5.0
TD/(TNW+MI) (x)	0.7	0.7	1.0	0.8	1.0
TD/OPBDIT (x)	1.5	2.2	-15.2	1.6	4.7
Interest Coverage (x)	6.6	6.1	-0.8	7.0	3.5
RoCE (%)	23.4%	15.0%	-10.0%	23.8%	6.6%
NWC/OI (%)	12.2%	12.2%	9.6%	12.0%	12.4%
Debtor Days	8	8	7	6	5
Inventory Days	69	65	61	66	68
Payable Days	29	25	36	24	25

Source: ICRA Research; aggregate of 13 poultry players

AA+
AA
AA-
A+
A
A-
BBB+
BBB
BBB-
BB+
BB
BB-



B+
B
B-
CCC+
CCC
CCC-
CC
C
D

ICRA Ratings in the Poultry Industry

Exhibit: Trend in upgrades and downgrades over the years

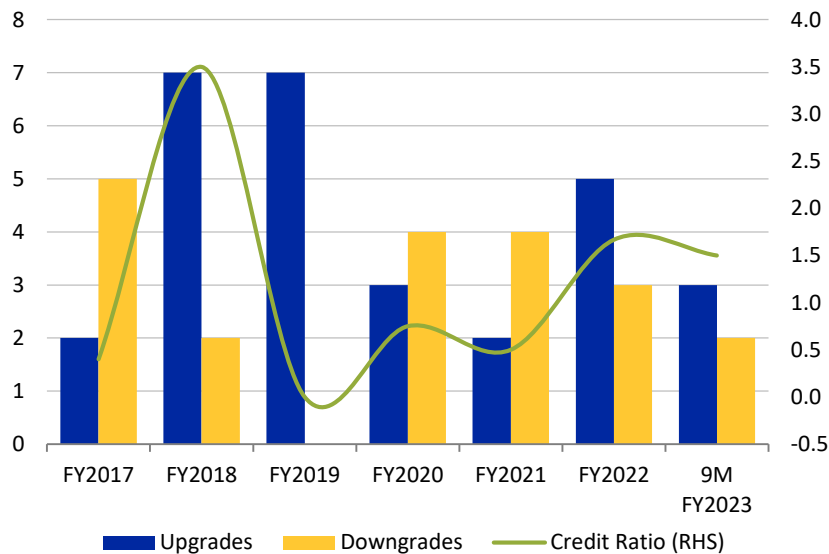
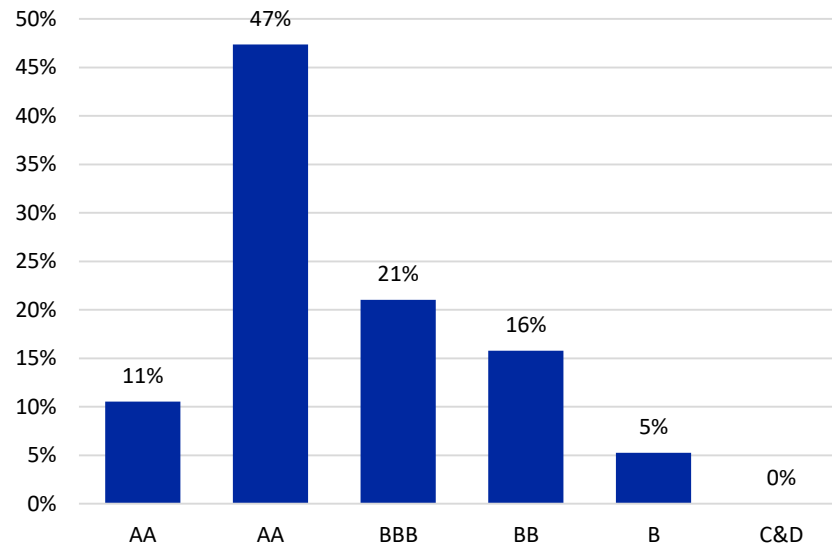


Exhibit: Rating distribution for ICRA-rated entities



ICRA rates 18 companies in the poultry sector, of which ~83% are rated in the investment grade. Most entities in the investment grade are vertically integrated.

ICRA's credit ratio stood at 1.5 times in 9M FY2023.

List of ICRA rated entities in the Poultry Industry

Company/Originator	Long-term Rating	Outlook	Short-term Rating
Abis Exports (India) Private Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Abis Sampoorna LLP	[ICRA]A(CE), [ICRA]BBB-	(Stable)	[ICRA]A3
C. L. Enterprises Pvt. Ltd.	[ICRA]A	(Stable)	-
CPF (India) Private Limited	[ICRA]BBB-	(Negative)	[ICRA]A3
Indian Agro and Food Industries Limited	[ICRA]AA-	(Stable)	[ICRA]A1+
Japfa Comfeed India Private Limited	[ICRA]A-	(Stable)	[ICRA]A2+
Life Line Feeds India Pvt. Ltd.	[ICRA]BBB	(Stable)	[ICRA]A3+
Life Line Hatcheries	[ICRA]BBB	(Stable)	-
SH Food Processing Private Limited	[ICRA]BB+	(Stable)	-
Premium Chick Feeds Pvt. Ltd.	[ICRA]BBB	(Stable)	[ICRA]A3+
Shalimar Hatcheries Limited	[ICRA]A	(Stable)	[ICRA]A1
Shalimar Pellet Feeds Limited	[ICRA]A	(Stable)	[ICRA]A1
Siddhivinayak Poultry Breeding Farm & Hatcheries Pvt. Ltd.	[ICRA]BB	(Stable)	-
SKM Animal Feeds and Foods (India) Private Limited	[ICRA]A	(Stable)	[ICRA]A1
Sona Vets Private Limited	[ICRA]A	(Stable)	[ICRA]A1
Srinivasa Farms Private Limited	[ICRA]BB+	(Stable)	[ICRA]A4+
Suguna Foods Private Limited	[ICRA]A-	(Stable)	[ICRA]A2+
Utkal Feeds Private Limited	[ICRA]A	(Stable)	-

Source: ICRA Research



Annexures

Poultry industry is dominated by organised players



Over 70% of India's poultry output, particularly in the broiler segment, is produced by organised commercial farms. There has been a gradual shift from backyard poultry to large scale commercialisation over the years. Key entities in the industry are vertically integrated and have own hatcheries, feed mills, and primary processing facilities. They also primarily source DOCs from contract farmers to whom they provide credit and provide access to the veterinary medicines.



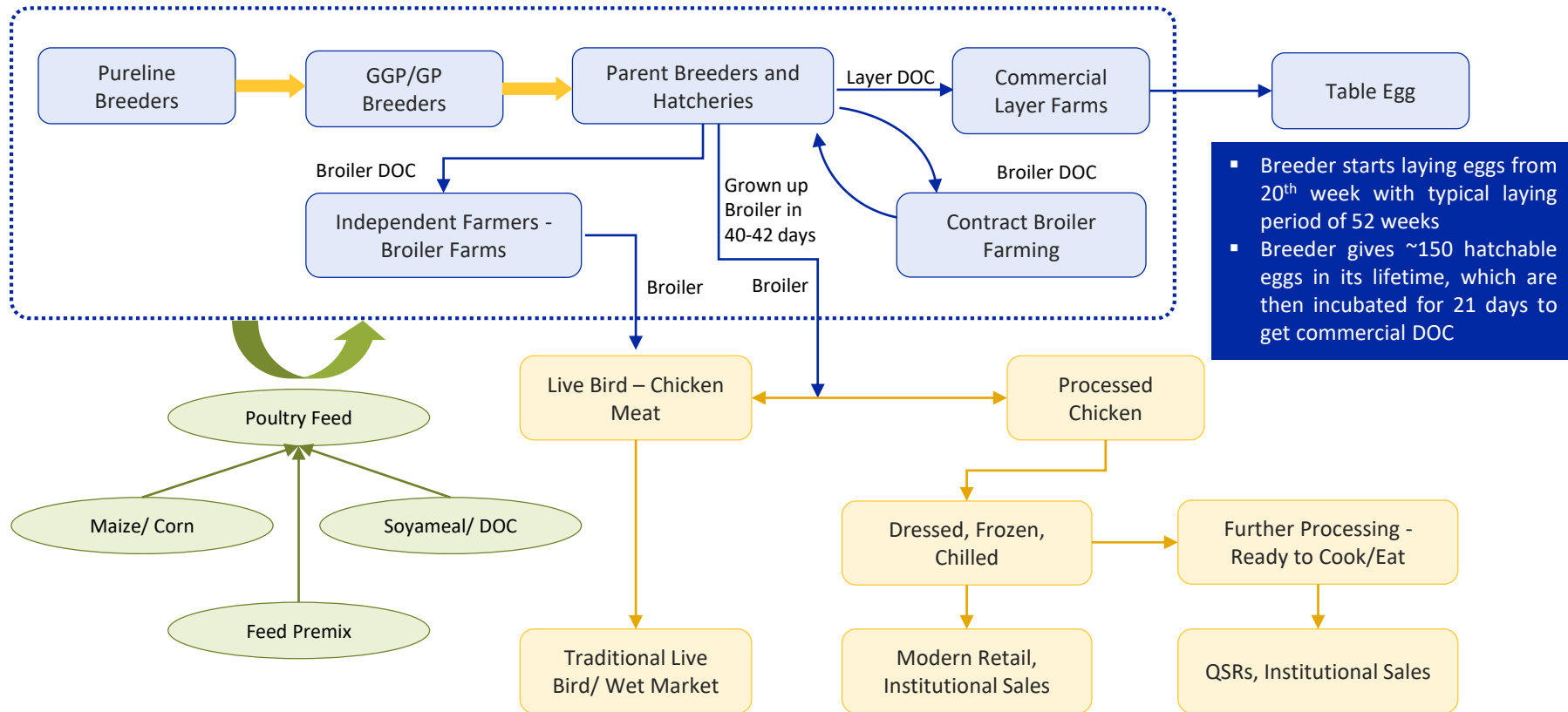
Dominance of live bird retailing limits geographical movement of output given the perishable nature of the product and limited cold storage and transportation infrastructure. Seasonal nature of consumption leads to volatile demand-supply trends across regions.



Farmers in India moved from rearing country birds in the past to rearing hybrids which give better operating parameters and profits to the poultry farmers. Key brands include Cobb, Ross, Sunbro, Marshall, Hubbard, Hybro Avian etc.

- Production largely organised, though distribution and retailing remains unorganised, given consumer preference for live bird

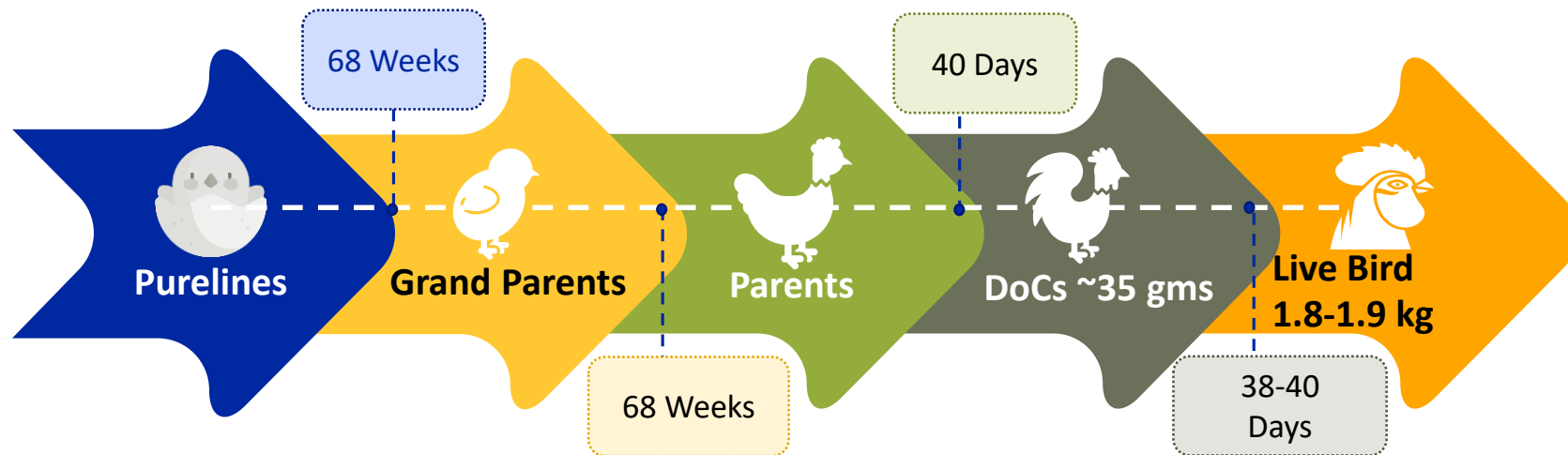
Poultry industry's supply chain



Source: ICRA Research

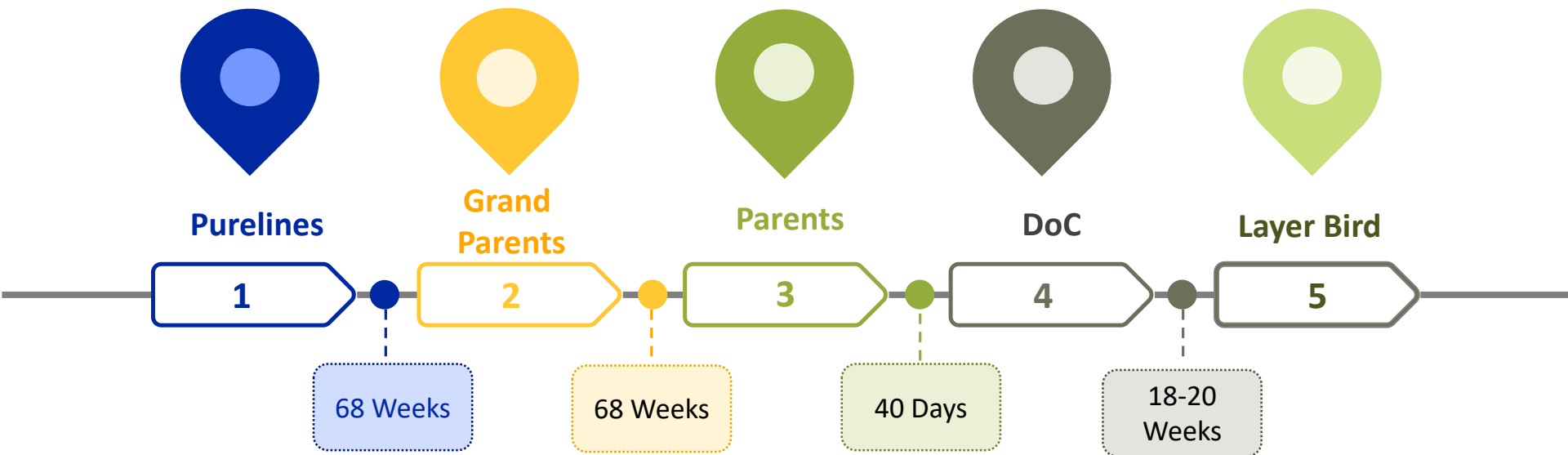
GGP: Great Grandparents GP: Grandparent DOC: Day Old Chick

Timeline to produce a broiler bird

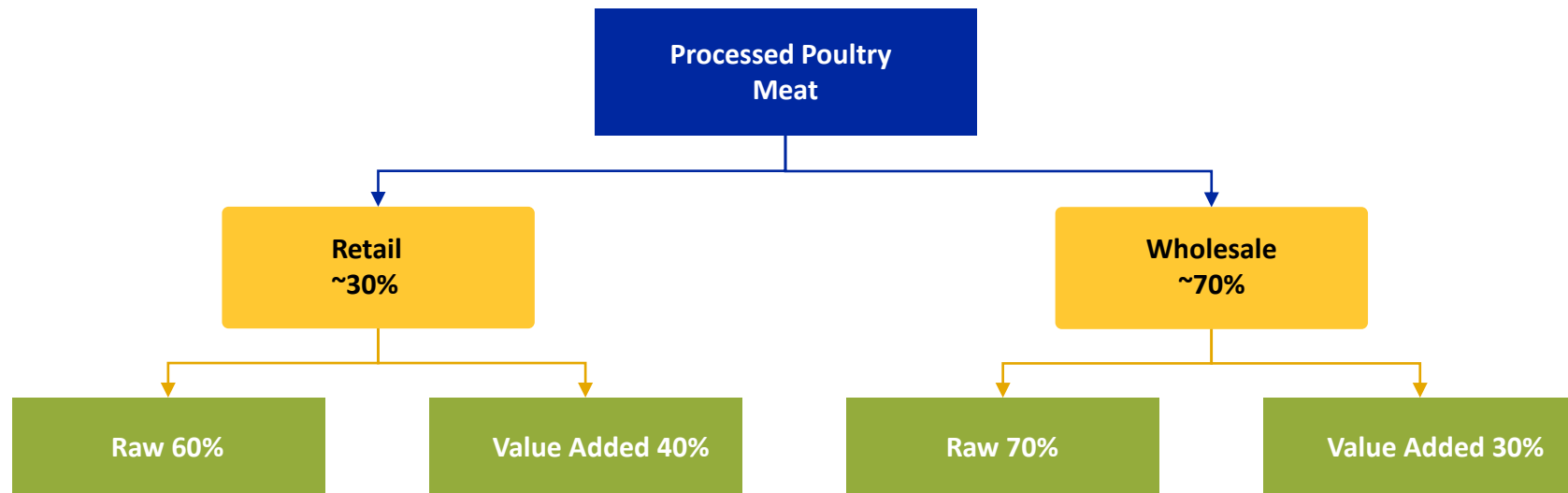


- Long gestation period to produce a live bird
- After 40 days of the feeding of the DOC, the feed conversion ratio deteriorates

Timeline to produce a layer bird



Layer bird lays eggs for 50-52 weeks



- Indian broiler meat market largely remains wet or live bird market
- Processed segment primarily involves dressed poultry catering to institutional buyers and quick service restaurants
- Indian processed chicken meat industry accounts for <10% of overall industry, expected to witness healthy growth in the long term

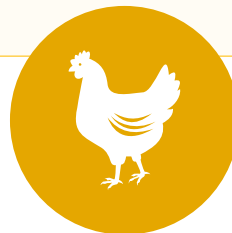
Breeder Farm

- Number of hatching eggs
- Hatchability
- Mortality
- Hatching egg selection gap
- Hatching day gap



Commercial Broiler Farm

- Feed Conversion Ratio (FCR)
- Average daily weight gain
- Mean age
- Mortality
- Meat yield



Layer Farm

- Number of eggs
- Feed per egg
- Egg weight
- Laying gap
- Mortality



1

Performance metrics depend on inherent traits of purelines, weather conditions, farm management and feed mix

2

Increasing resistance against diseases like bird flu and enhanced farm management techniques help to reduce mortality. Typical mortality rates in Indian farms are 5-7% (with summer mortality as high as 12-15%) while developed countries have less than 5% mortality rates.

3

Feed conversion ratio or FCR is the ratio indicating feed required for 1 kg gain in bird weight. Similar metric for layers is feed per egg. Existing FCR in domestic industry ranges between 1.65 - 1.85



4

Hatchability is the percentage of eggs hatched over number of eggs set up for incubation. Parent breeder farms focus on number of hatching eggs per parent (160-180 eggs) and hatchability (75%-85%)

5

Typical operating parameters for large integrated domestic poultry farms are comparable with global peers, though mortality rates are higher given open farming and fluctuating weather conditions in the country

6

Mature markets globally use environmentally-controlled (EC) poultry farms, which give better operating parameters. High capital costs and power availability are key barriers towards EC adoption





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