

Indian Poultry Industry Poised for Recovery: Margins to expand by 180-220 bps

October 25, 2024, | Ratings

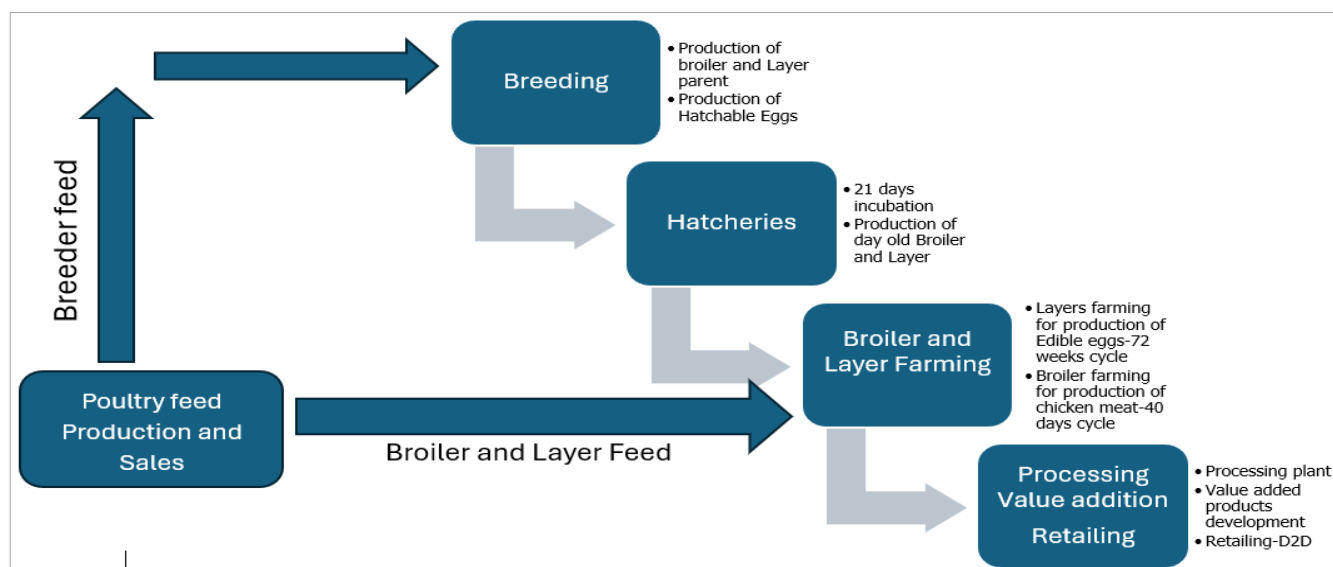


Synopsis

- India is a leading producer of eggs and broiler chicken, with significant growth driven by urbanisation and rising incomes. As of 2024, India ranks among the top producers of eggs and broiler chicken globally, with an annual production of over 140 billion eggs and approximately 4.5 million tonnes of broiler meat.
- Revenue of key players peaked in 2022 but declined in 2023 and 2024 due to market conditions and rising input costs. Maize and soybean are the key feed inputs whose prices surged due to supply issues; however, these have stabilised in 2024 with improved harvests and government interventions.
- Broiler meat prices peaked in early FY2024 but fell later due to oversupply. Prices are expected to stabilize with seasonal demand boosts.
- CareEdge Ratings anticipates an 8-10% revenue growth in FY2025, with recovery of 180-220 bps in operating profit margins driven by growing population with changing dietary preferences towards protein-rich foods and softening of input prices.
- Poultry industry remain susceptible to feed prices and disease outbreaks wherein industry players continue to focus on developing breed with lower FCR and higher disease resistance and innovations in poultry vaccines.

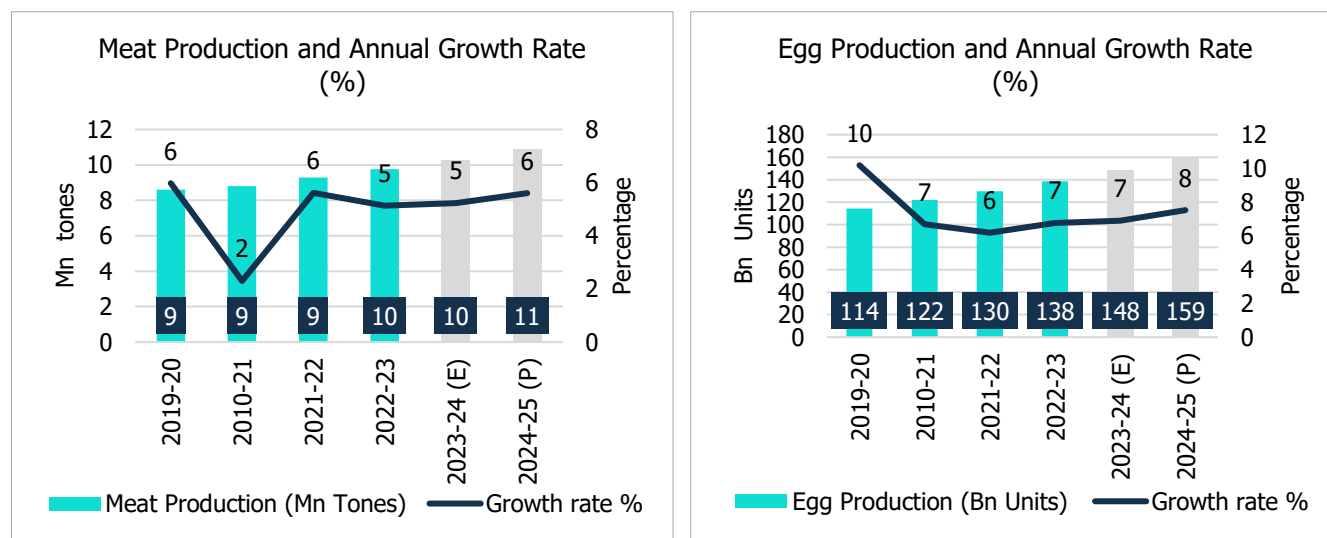
Overview of the Poultry Industry

The Indian poultry sector is a fast-growing part of the agriculture industry, providing affordable, high-quality protein to the nation. The poultry value chain begins with breeding and genetic selection to produce birds optimized for egg or meat production. Parent stocks produce fertilised eggs, which hatch into day-old chicks at hatcheries. These chicks are raised on farms with nutritionally balanced feed, reaching market weight for broilers or maturity for layers. Broilers are processed into meat products, while eggs are cleaned, graded, and packaged. Distribution is managed through wholesalers, retailers, and direct channels, with cold storage preserving quality.



Robust Growth in Egg and Meat Production

The poultry industry in India has consistently grown in both egg and meat production over the past decade, highlighting its increasing role in meeting the country's protein needs. Historically, the food and beverage sector has driven protein demand, with meat, poultry, and seafood making up 31-34% of this demand. Egg production is expected to grow by 7-8% in the near term, reflecting the rising demand for affordable protein. Similarly, meat production is projected to increase by 5-6%, indicating a recovery from previous disruptions. Improved feed availability, a demand for protein-rich diets, and shifts in consumer preferences during festive seasons contribute to this demand, aligning with historical growth trends and suggesting continued expansion.



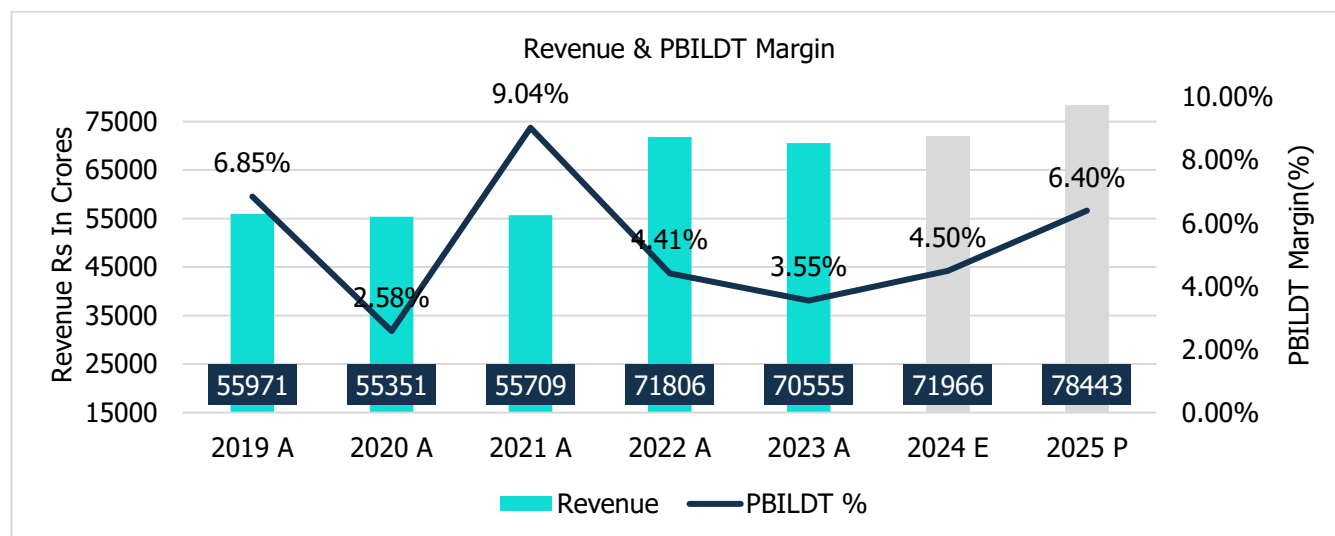
Source: Department of Animal Husbandry Annual Report FY23-24 and CareEdge Ratings; (E) – Estimates; (P)-Projected

Note: Meat production includes poultry, buffalo, goat, sheep, Pig and Cattle meat with poultry having over 50% share in total meat production

CareEdge Ratings anticipates 8-10% revenue growth for the Indian poultry industry in FY2025, driven by rising demand for protein-rich foods, supported by urbanization and a shift towards healthier diets. Poultry, being an affordable protein source, is increasingly consumed across households and food services. Stabilizing input costs, improved feed management, and government support further enhance growth prospects.

Revenue and Profitability Set for Recovery After Two-Year Decline

The poultry industry's revenue trend has shown significant fluctuations over the years, reflecting changes in market dynamics and input costs. – Post covid disruption in FY20, which impacted scale and profitability, the industry saw a strong demand recovery with better realisations. However, this moderated in 2023 and 2024 due to oversupply and increased input costs. Meat and egg prices are volatile due to commodity and perishable nature of these products, and they are influenced by local supply-demand dynamics, which limit pricing flexibility. The poultry industry experienced volatility in broiler meat prices during FY2024. Strong demand boosted prices in H1 (April-October), but an oversupply from November 2023 led to a decline.



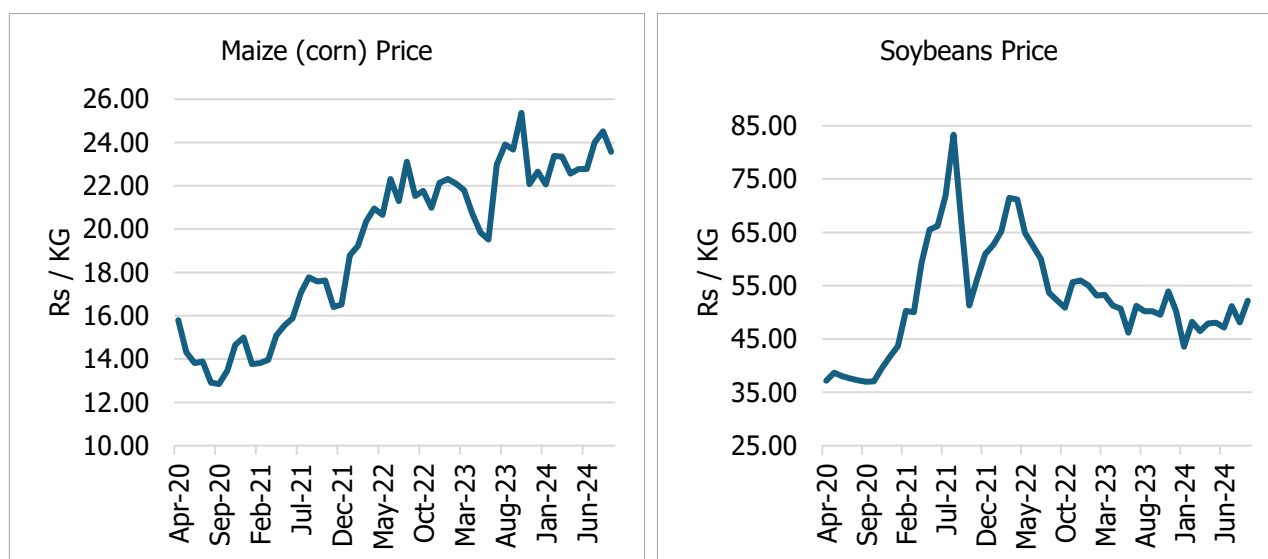
Source: CMIE, and CareEdge Ratings estimates

Looking ahead, revenue and margins are expected to recover in 2025 -for 2025, with revenue expected to increase by 8%-10% and the PBILDT margin to improve to 180-220 bps supported by stabilising input costs and improving market conditions. CareEdge Ratings anticipates a gradual recovery in prices as the demand-supply balance improves, with seasonal demand during festive periods and colder months supporting stabilisation.

Key Challenges and Opportunities:

A. Fluctuations in Input Costs

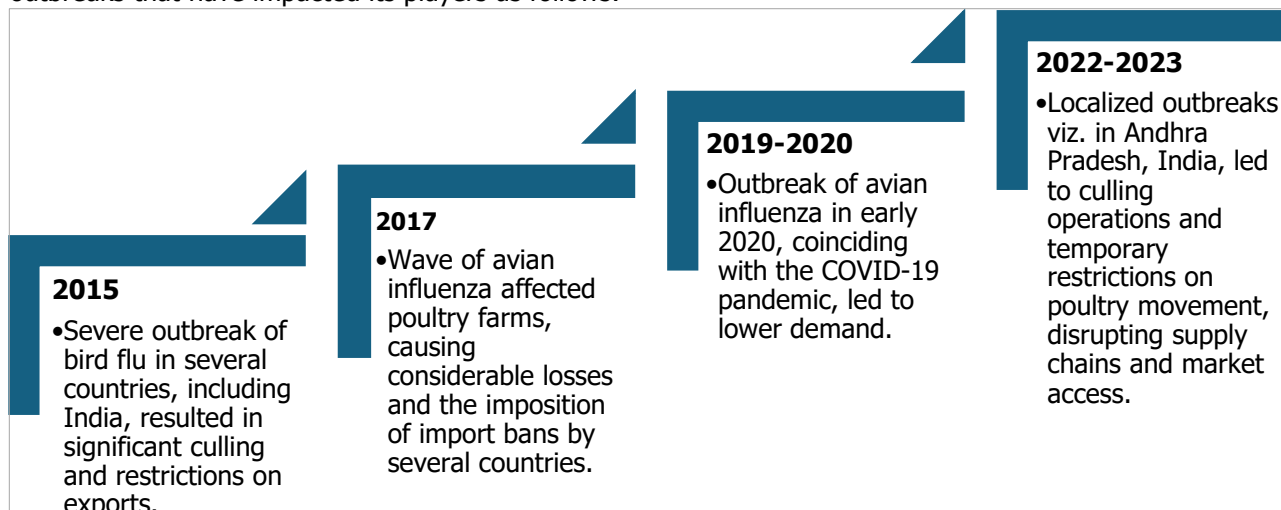
The poultry industry is heavily dependent on feed costs, particularly maize and soybean, which constitute about 65-70% and 30% of the total feed cost, respectively. Feed prices, driven by factors like weather and global demand for maize and soybean, significantly impact profitability of players operating in the industry. In FY2024, the industry witnessed a stabilisation in feed prices that had a direct impact on profitability. To reduce the impact of the same, key players focus on developing better breed which has lower Feed Conversion Ratio (FCR).



Source: Agmarknet.gov.in and CareEdge Ratings

B. Disease outbreaks:

Disease outbreaks, particularly avian influenza (bird flu), significantly impact the profitability of the poultry industry by causing both direct and indirect losses. Year-wise, the poultry industry has witnessed several outbreaks that have impacted its players as follows:



This results in lower sales volumes and prices, negatively affecting revenue and margins. Additionally, disease outbreaks lead to increased expenditure on biosecurity measures, vaccinations, and other preventive actions, further squeezing profitability and same continue to weigh down on the industry players. To tackle this issue, key players focus on developing vaccines as well as disease resistance breed, however considering the commodity nature of product, cost effectiveness remains a key challenge.

Impact of FCR on Profitability

The Feed Conversion Ratio (FCR) is crucial for profitability in the poultry industry, reflecting how efficiently birds convert feed into body mass. Over the last decades, there has been a noticeable improvement in the FCR across all bird sizes, with larger birds demonstrating the most efficient feed conversion. The FCR for breeds that dominate the Indian poultry market typically ranges from 1.50 to 1.80. This efficiency can be further optimised through improvements in breed selection, feed quality, and management practices. Analysis reveals that larger poultry groups achieve better feed efficiency, with management strategies and seasonal variations playing key roles in maintaining optimal FCR values.

CareEdge Ratings' View

CareEdge Ratings maintains a stable outlook for the Indian poultry industry, anticipating revenue growth of 8-10% in FY2025, driven by urbanisation, rising incomes, and growing consumer preference for protein-rich foods. Operating profit margins are expected to improve by 180-220 bps YoY in FY2025, although feed prices and disease outbreaks remain key monitorable. "The industry players' credit profile faces earnings volatility, but benefits from investments in value-added products, backward integration, and efficiency improvements. Additionally, maintaining liquid investments and unutilized credit limits, typically ranging from 15-20% of working capital limits, helps players manage short-term fluctuations," added Akhil Goyal, Director, CareEdge Ratings.

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