May 31, 2024

Singh Poultry Private Limited: Placed on Rating Watch with Positive Implication

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund based- Cash Credit	8.25	8.25	[ICRA]BBB-; Placed on Rating Watch with Positive Implication
Long Term- Fund based- Term Loan	6.80	6.80	[ICRA]BBB-; Placed on Rating Watch with Positive Implication
Long-term – Unallocated	4.95	4.95	[ICRA]BBB-; Placed on Rating Watch with Positive Implication
Total	**20.00**	**20.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating outstanding on Singh Poultry Private Limited (SPPL) has been placed on Watch with Positive Implications after the rating of its parent, Sneha Farms Private Limited (SFPL), has been placed on Watch with Positive Implications, on the back of an expected improvement in SFPL's credit profile with the proposed equity infusion. SFPL, which is involved in breeder farming, hatchery, broiler farming, layer farming, chicken processing, and other such operations, has entered into a definitive agreement with Mitsui & Co. (Mitsui), a Japanese food chain company, in March 2024, wherein Mitsui will acquire a 25.01% in SFPL (the flagship entity of the Sneha group) through primary and secondary issue of shares. A sizeable equity is expected to be infused in SFPL through primary issue which would be utilised by the company to reduce its debt levels, leading to improved debt protection metrics. Prior to Mitusi's equity investment, the Sneha Group will be demerging a part of its real estate assets into a different entity. Moreover, regulatory approvals would be required for the investment. Hence, timeliness of the equity infusion would be monitored.

SPPL's rating considers the strong operational and financial support from SFPL, which is the flagship entity of the Sneha Group and the market leader in the broiler segment in Telangana and Andhra Pradesh with an established operational track record of over three decades. Moreover, SPPL is strategically important to the Sneha Group due to its 1-lakh breeder capacity with a committed supply of parent day-old chicks from Venkateshwara Hatcheries (Venky's) for its Vencobb breed. Such factors make SPPL crucial for the Group in expanding its broiler farming operations. The rating further considers the operational track record of the company in the poultry business.

The rating, however, is constrained by SPPL's small scale of operations with a single farm in Telangana. Moreover, SPPL's financial profile is modest, characterised by its leveraged capital structure. However, ICRA notes that SPPL's margins improved to ~15% in FY2024 from ~5% in FY2023 on the back of healthy realisations and better operational efficiency post SFPL's acquisition in May 2023. ICRA expects the margins to remain at 15-17% in FY2025, which is likely to result in improved debt metrics, going forward. Nevertheless, SPPL's profit margins are susceptible to volatility in bird realisations due to the seasonal nature of the demand/supply of poultry products in India, which significantly impacts the profitability of all integrators. Moreover, the prices of key raw materials, such as soya De Oiled Cake (DOC) and maize, depend on agro-climatic conditions, international prices, and government policies with respect to the minimum selling prices (MSP), export/import policies, and other such factors. The company, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks such as bird flu.

Key rating drivers and their description

Credit strengths

Support from SFPL – SPPL is a 100% subsidiary of SFPL after the latter acquired SPPL in May 2023. SFPL is the market leader in Telangana and Andhra Pradesh with an established track record of operations of over three decades in the poultry business. SPPL benefits from the parent company's established supplier and customer base, as 100% of its sales are made to the parent group. The parent company's experience in the industry and high operational synergies with it are expected to improve SPPL's operational efficiency, leading to improved margins. SFPL is also expected to support SPPL, as and when required, given the financial and operational linkages.

Established operational track record of the company in the poultry businesses – Incorporated in 1976, SPPL has a long operational track record in the poultry business. Additionally, the company continues to benefit from the extensive experience of its parent, SFPL, in the poultry business.

Credit challenges

Small scale of operations with a single farm in Telangana – SPPL's scale of operations has remained small with a single farm in Telangana, with revenue of Rs. 39.4 crore in FY2024. The operating margins improved significantly to 15.2% in FY2024 from 5.1% in FY2023 on the back of healthy realisations and better operational efficiency post SFP's acquisition in May 2023. ICRA expects the company profit margins to remain at 15-17% in FY2025, supported by the parent's experience and operational synergies with it. While the company's capital structure is expected to remain leveraged in the near term, its coverage metrics are expected to improve on the back of increase in profit margins with better operational efficiency.

Profit margins vulnerable to volatility in raw material prices and inherent cyclicality of the poultry industry – The prices of key raw materials (maize and soya DOC) remain volatile on the back of fluctuations in domestic production owing to agro-climatic conditions, international prices, government regulations and demand from the animal husbandry sector, which is susceptible to seasonality. The company's profitability, like other entities in the poultry business, will remain vulnerable to the movement in raw material prices. Additionally, volatility in broiler egg realisations, owing to the seasonal nature of the demand/supply of poultry products in India, has a bearing on the profitability of all integrators.

Exposed to the risk of disease outbreaks – The company, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu), which is further exacerbated by the concentration of revenues (100% of revenues) on a single farm in Telangana.

Liquidity position: Stretched

SPPL's liquidity position is stretched with cash and bank balance of Rs. 0.1 crore and minimal buffer in the working capital of Rs. 10.0-15.0 crore against repayment obligations of Rs. 1.0-2.0 crore over the next 12 months. However, the company is expected to generate retained cash flow of Rs. 3.0-6.0 crore and does not have any major capex plan in the near- to medium term. Moreover, SFPL has infused unsecured loans to support SPPL's liquidity.

Rating sensitivities

Positive factors – The rating Watch could be resolved upon resolution of the Watch on its parent SFPL's rating. The rating could be upgraded if there is a sustained improvement in SPPL's earnings, leading to improved debt metrics. Moreover, an improvement in the credit profile of the parent, SFPL, could trigger a rating upgrade.

Negative factors – The rating may be downgraded if there is a deterioration in the credit profile of the parent entity, SFPL, or in case of weakening of linkages with the parent. Further, pressure on SPPL's rating could emerge in case of a material decline in earnings or any significant rise in the debt-funded capex, resulting in a moderation of debt coverage metrics or the liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group support	Implicit support from the parent – Sneha Farms Pvt. Ltd.
Consolidation/Standalone	ICRA has considered the standalone financials of SPPL along with implicit support from SFPL to arrive at the rating.

About the company

Singh Poultry Private Limited, a 100% subsidiary of Sneha Farms Private Limited (SFPL), is involved in breeder farming with a capacity of 1 lakh breeders. It was acquired by SFPL in July 2023, for a consideration of Rs. 50.0 crore, funded through ~Rs. 19.0 crore of term debt and ~Rs. 31.0 crore of internal accruals. SFPL is a prominent player in the poultry industry with presence across poultry farming, poultry breeding, broiler chicken production, hatching of eggs, frozen chicken, commercial layer farming, and manufacturing of poultry feed.

Key financial indicators (audited)

SPPL Consolidated	FY2023	FY2024*
Operating income	5,057.1	5,592.8
PAT	257.8	197.0
OPBDIT/OI	9.2%	7.9%
PAT/OI	5.1%	3.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	2.1	3.0
Interest coverage (times)	6.2	4.4

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *provisional financials*

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)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 31, 2024	Oct 27, 2023	-	-
1	**Fund based–Cash Credit**	Long Term	8.25	-	**[ICRA]BBB-; Rating Watch with Positive Implications**	**[ICRA]BBB- (Stable)**	-	-
2	**Fund based–Term Loans**	Long Term	6.80	6.80	**[ICRA]BBB-; Rating Watch with Positive Implications**	**[ICRA]BBB- (Stable)**	-	-
3	**Unallocated**	Long Term	4.95	-	**[ICRA]BBB-; Rating Watch with Positive Implications**	**[ICRA]BBB- (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Fund based- Cash Credit	Simple
Long Term- Fund based- Term Loan	Simple
Long Term - Unallocated	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	**Long Term- Fund based- Cash Credit**	NA	NA	NA	8.25	[ICRA]BBB-; Rating Watch with positive implications
NA	**Long Term- Fund based- Term Loan**	FY2023	NA	FY2029	6.80	[ICRA]BBB-; Rating Watch with positive implications
NA	**Long Term - Unallocated**	NA	NA	NA	4.95	[ICRA]BBB-; Rating Watch with positive implications

Source: Company

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

Annexure II: List of entities considered for consolidated analysis - Not applicable

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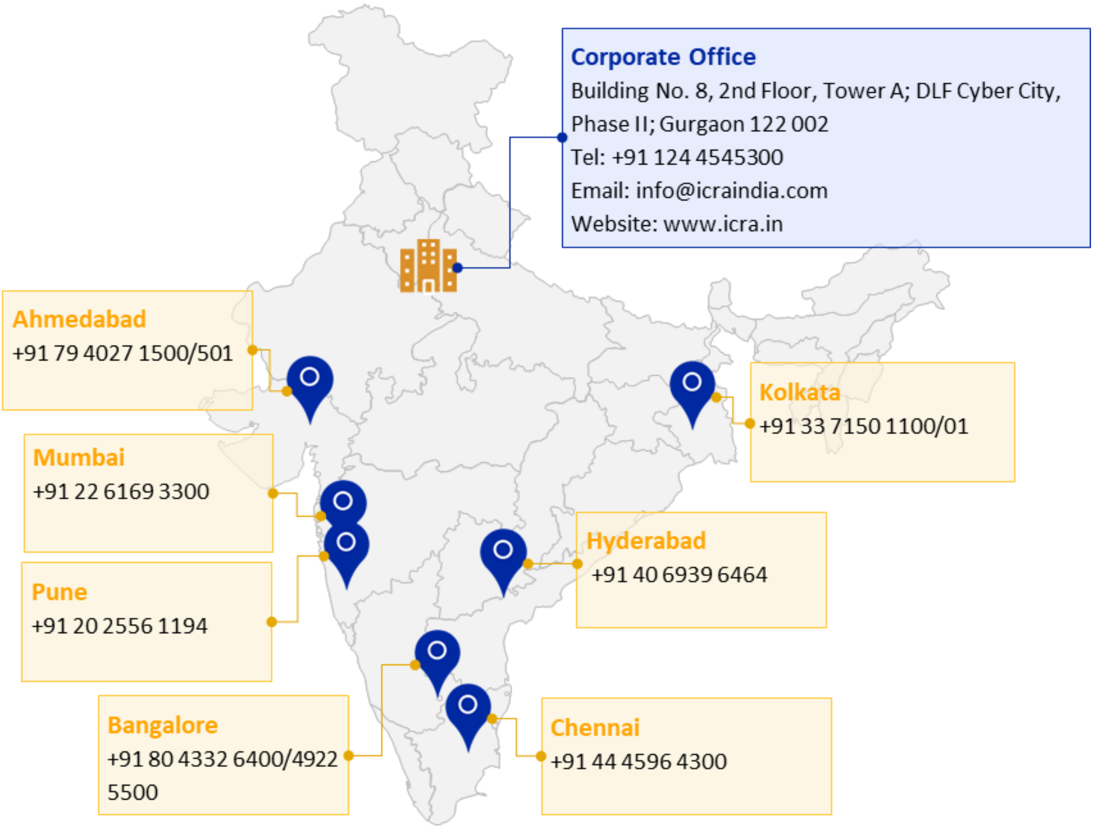

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