June 30, 2022

Suguna Foods Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non – Convertible Debenture Programme	367.4	332.0	[ICRA]A- (Stable) reaffirmed
Non – Convertible Debenture Programme	47.6	-	[ICRA]A-(Stable) reaffirmed and withdrawn
Long Term Loans	250.34	208.76	[ICRA]A- (Stable) reaffirmed
Long Term Fund Based facilities	1,239.00	1,361.75	[ICRA]A- (Stable) reaffirmed
Short Term Non-Fund Based facilities	7.00	7.25	[ICRA]A2+ reaffirmed
Long-term/ Short -term – Unallocated	103.66	22.24	[ICRA]A-(Stable) /[ICRA]A2+ reaffirmed
Total	**2,015.00**	**1,932.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in the dominant market position of Suguna Foods Private Limited (Suguna/SFPL) with ~15% market share in the broiler industry, and its large scale of operations with operating income of Rs. 10,754.2 crore in FY2022. The ratings also consider SFPL's diversified geographic presence with its operations spread across 18 states and well-integrated operations with its presence across the value chain of the broiler industry from soya bean processing till processed food sales. SFPL also has its own in-house pure breed, 'Sunbro', which has been developed to suit Indian conditions. Once the operational parameters of the bird are fully stabilised, it is expected to drive revenue growth and margins in the medium term.

The ratings are, however, constrained by the exposure of SFPL's financial performance to the inherent cyclicality in the poultry industry, wherein disease outbreaks, climatic conditions or cost inflation can adversely impact revenues and margins. Moreover, SFPL's revenues are concentrated on the live bird segment vis-à-vis its peers, a segment where margins have been volatile. This was witnessed during FY2022 as sharp increase in commodity prices, primarily maize and soyabean, led to decline in operating margins to 0.3% from 5.9% in FY2021. The decline in margins, coupled with higher inventory holding, has resulted in significant increase in working capital debt to Rs. 1,514.5 crore as on March 31, 2022 from Rs. 1,016.4 crore as on March 31, 2021. Increased debt and lower margins led to moderation in coverage indicators. However, realisations have been improving sharply since February 2022 partly due to high demand in the market which has enabled the company to pass on increased raw material costs to its customers. Additionally, soya prices, which increased sharply till March 2022 have softened, leading to improved contribution margins since March 2022. ICRA expects margins to recover substantially in FY2023 on the back of improved realisations, stabilisation of raw material costs, and various initiatives undertaken by the management, including reducing the concentration on live bird segment; improved margins are expected to lead to improved debt protection metrics.

The Stable outlook on the rating reflects ICRA's opinion that the company's margins will improve substantially from FY2022 levels leading to improved financial profile, and ICRA's expectation that the company will continue to benefit from its established presence and strong market share in the poultry industry.

Key rating drivers and their description

Credit strengths

Significant experience of promoter/management team and established brand name – SFPL was promoted by Mr. B. Soundararajan and his brother Mr. G.B. Sundararajan, first-generation entrepreneurs, in 1984. The company has a strong brand name, aided by a track record of over three and half decades.

Large scale of operations leads to scale benefits; development of in-house breeder offers support – The company is the largest integrated player in the poultry industry with significant market share of ~15% in broiler sales. It has a large scale of operations (~Rs. 10,754 crore for FY2022) with integrated presence across the value chain. Moreover, SFPL has developed its in-house pureline breed, Sunbro. Once the operational parameters of the bird are fully stabilized, it is expected to drive revenue growth and margins in the medium term.

Well-integrated presence across value chain – SFPL has long relationships with a large number of contract farmers spread across 18 states, has access to latest technology in poultry breeding and established in-house feed production capabilities. It has strong presence across the value chain with in-house feed mills, in-house broiler pureline breed (Sunbro) and processing facilities to sell processed chicken.

Credit challenges

Financial performance exposed to inherent cyclicality of the poultry industry – The financial performance of SFPL is exposed to the inherent cyclicality in the poultry industry. With increase in commodity prices in FY2022, particularly for soyabean, operating margins dipped to 0.3% in FY2022 from 5.9% in FY2021. This decline in margins amidst an inflationary environment led to increased working capital debt utilization to support cash flows with working capital debt increasing to Rs. 1,514.5 crore in FY2022 from Rs. 1,016.4 crore in FY2021. Increase in inventory days on account of the rising raw material costs as well as due to stocking to meet demand requirements has also led to an increase in working capital intensity to 17% in FY2022 from 15% in FY2021. Partly on account of high demand from the market driving market acceptance for an increase in broiler prices to keep up with increased commodity costs, realisations have been improving sharply since February 2022. Additionally, soya prices, which were increasing in period between November 2021 and March 2022 due to a combination of holding back of stocks by traders/farmers and the impact of the Ukraine war, started declining from April 2022 with government allowing imports of soyabean. Further with farmers having to release the stocks they had held back before the next harvesting season, outlook for soya prices remains stable for the next few months and therefore margins are expected to remain protected in Q2 FY2023, which is traditionally a weak quarter for the industry in terms of realisations and demand.

Relatively high concentration towards low-margin live-bird segment vis-a-vis peers – SFPL derives ~83% of its revenues from sale of live birds where the margins have historically been volatile. Margins in this segment could be impacted by disease outbreaks, unfavourable climatic conditions or volatile raw material costs. SFPL may not be able to pass on the increased costs to its customers in a time bound manner because of commoditised nature of the product and competition. However, the management is focussing on improving revenue share from processed chicken segment, where the margins are significantly higher, and from feed and soya, where the margins are relatively stable.

Inherent risks in poultry business – The poultry industry is exposed to diseases such as avian influenza (bird flu) outbreaks. However, SFPL risk is partially insulated because of its geographically diversified presence across 18 states. Further, the poultry industry is fragmented with intense competition leading to pressure on pricing and margins.

Liquidity position: Adequate

The company's liquidity is adequate as indicated by ~Rs. 250 crore buffer in the working capital limits, cash balances of ~Rs. 39 crore as on March 31, 2022, and expected retained cash flows of Rs 200-250 crore in FY2023 as against repayment obligations of Rs. 99.4 crore and capex plans of Rs. 100-120 crore in FY2023. Moreover, Suguna Holdings Private Limited

(SHPL), which holds over 99.7% stake in SFPL, had free cash and liquid investments of over Rs. 300 crore as on March 31, 2022. SHPL has supported SFPL in the past.

Rating sensitivities

Positive factors – The rating could be upgraded, if sustained improvement in demand and improved contribution margins lead to an increase in profitability and reduction in debt levels on a sustained basis. A specific credit metric that could lead to an upgrade is TD/OPBDITA less than 2 times on a sustained basis.

Negative factors – Negative pressure on SFPL's rating could arise if any material decline in demand or contribution margins impact profitability. Significant deterioration in capitalisation and coverage metrics or elongation in working capital cycle, or materially higher debt-funded capex impacting its debt metrics could also lead to negative pressure on the ratings. A specific credit metric that could lead to a downgrade is TD/ OPBDITA greater than 3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]()
Parent/Group support	The majority of SFPL's stake is held by Suguna Holdings Private Limited. While the rating for SFPL is based on the parent support approach, there is no rating upliftment based on the parent's support as the company's standalone credit profile rating is on par with that of its parent.
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Suguna Foods Private Limited (SFPL; erstwhile Suguna Foods Limited) was incorporated up in 1984 as a backyard farm in Udumalpet (Tamil Nadu). It is based in Coimbatore and operates in 18 states. The promoters—Mr. B. Soundararajan and his younger brother Mr. G.B. Sundararajan—are first-generation entrepreneurs. SFPL initially started operating as a partnership firm and was later converted into a private limited company. The holding company of the Group is Suguna Holdings Private Limited, which also holds other companies in the Group, namely Globion India Private Limited, Aminovit Feeds Private Limited, Suguna Foods Bangladesh Private Limited, Suguna Foods Kenya Limited etc.

Key financial indicators (audited)

SFPL Standalone	FY2021	FY2022Prov
Operating income	9,155.0	10,754.2
PAT	364.1	-162.5
OPBDIT/OI	5.9%	0.3%
PAT/OI	4.0%	-1.5%
Total outside liabilities/Tangible net worth (times)	1.7	3.3
Total debt/OPBDIT (times)	2.4	64.2
Interest coverage (times)	4.8	0.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Jun 30, 2022	Jun 28, 2021	June 12, 2020	April 06, 2020	June 07, 2019	May 10, 2019
1	NCD	Long term	332.0	258.5	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&	-	-
2	NCD	Long term	47.6	--	[ICRA]A-(Stable); reaffirmed and withdrawn	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&	-	-
3	Term Loan	Long term	208.76	145.6	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&	[ICRA]A-(Stable)	[ICRA]A-(Stable)
4	Fund-Based	Long term	1,361.75		[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&	[ICRA]A-(Stable)	[ICRA]A-(Stable)
5	Non-Fund Based	Short term	7.25		[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2&	[ICRA]A2+	[ICRA]A2+
6	Unallocated	Long Term/Shor Term	22.24		[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+&/ [ICRA]A2&	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short -term – Non-Fund-based working capital	Very Simple
Long-term – Fund-Based working capital	Simple
NCD	Simple
Long term/Short 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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE0DLQ07014	NCD	July 2020	6 month MIBOR + 0.985% +3%	FY2029	102.0	[ICRA]A-(Stable)
INE0DLQ07022	NCD	April 2021	ADB Funding Rate +2.5%	FY2024	18.3	[ICRA]A-(Stable)
INE0DLQ07030	NCD	June 2021	6 month MIBOR + 0.985% +3%	FY2029	101.5	[ICRA]A-(Stable)
INE0DLQ07048	NCD	Sep 2021	ADB Funding Rate +2.5%	FY2024	36.7	[ICRA]A-(Stable)
Yet to be placed	NCD	-		-	73.5	[ICRA]A-(Stable)
Yet to be placed	NCD	-		-	47.6	[ICRA]A-(Stable) reaffirmed and withdrawn
NA	Term Loan-1	FY2021		FY2026	26.7	[ICRA]A-(Stable)
NA	Term Loan-2	FY2021		FY2025	12.0	[ICRA]A-(Stable)
NA	Term Loan-3	FY2021		FY2025	6.0	[ICRA]A-(Stable)
NA	Term Loan-4	FY2021		FY2026	14.4	[ICRA]A-(Stable)
NA	Term Loan-5	FY2021		FY2027	27.9	[ICRA]A-(Stable)
NA	Term Loan-6	FY2021		FY2027	17.7	[ICRA]A-(Stable)
NA	Term Loan-7	FY2021		FY2027	5.7	[ICRA]A-(Stable)
NA	Term Loan-8	FY2021		FY2030	35.2	[ICRA]A-(Stable)
NA	Term Loan-9*	-		-	63.16	[ICRA]A-(Stable)
NA	Cash credit				1,361.75	[ICRA]A-(Stable)
NA	LC				7.25	[ICRA]A2+
NA	Unallocated				22.24	[ICRA]A-(Stable)/[ICRA]A2+

Source: *Company; *Yet to be drawn*

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

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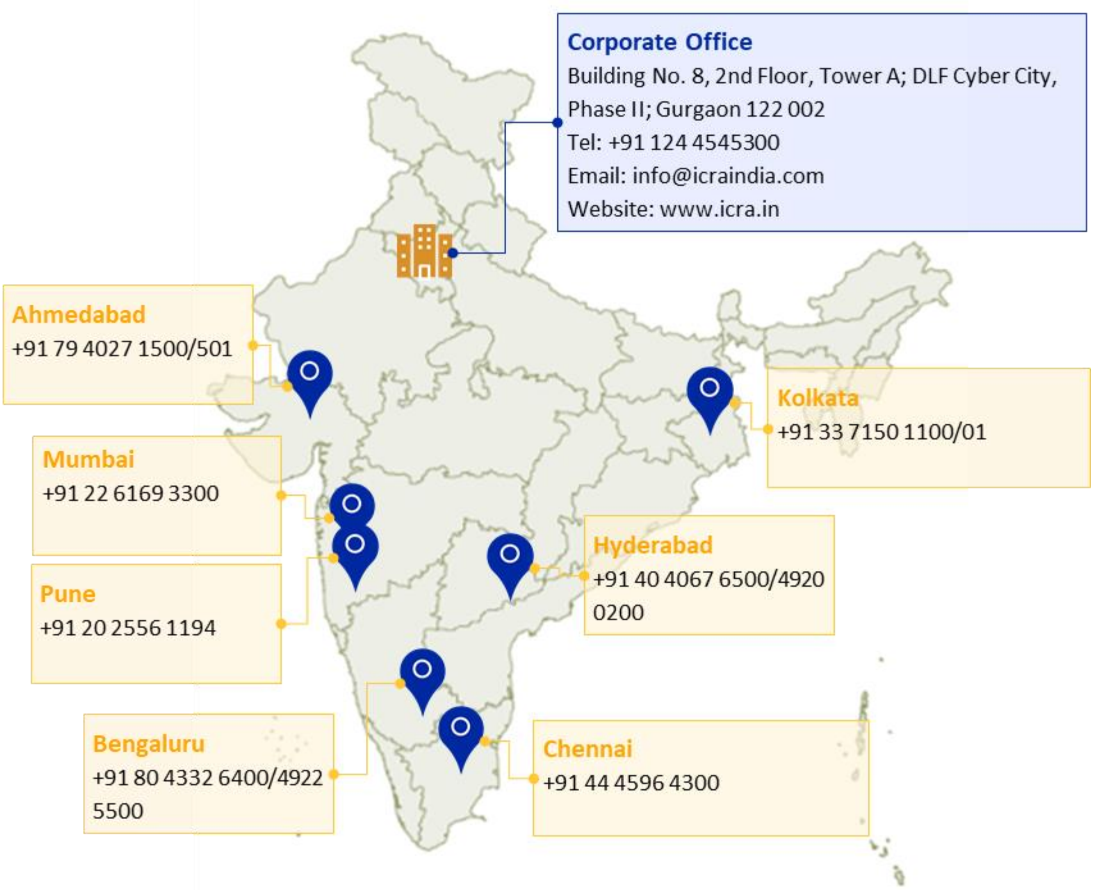

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