

November 07, 2022

Siddhivinayak Poultry Breeding Farm & Hatcheries Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	5.24	14.25	[ICRA]BB (Stable); reaffirmed
Long-term Fund-based – Cash Credit	14.00	14.00	[ICRA]BB (Stable); reaffirmed
Long-term – Unallocated Limits	15.76	6.75	[ICRA]BB (Stable); reaffirmed
Total	35.00	35.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of Siddhivinayak Poultry Breeding Farm & Hatcheries Pvt. Ltd. (SPBF) factors in the company's established operational track record and extensive experience of its promoters spanning over 30 years in the poultry sector; and healthy revenue growth registered in recent years. SPBF's revenue grew to Rs. 362.9 crore in FY2022 from Rs. 242.5 crore in FY2021 supported by higher volumes offtake as well as improvement of broiler realisations during the year. Moreover, the company has recently commissioned its own feed mill at Ranjangaon (Maharashtra), thereby ensuring a steady feed supply and reducing the dependence on external feed manufacturers.

The ratings, however, remain constrained by SPBF's moderate scale of operations in a highly fragmented and competitive poultry industry, which limits its bargaining power as well as pricing flexibility. Further, its profitability remains exposed to the inherent volatility in the poultry business along with volatility in prices of key raw materials, maize and soya meal, which are driven by agro-climatic conditions and global demand-supply.

The Stable outlook on the long-term rating reflects ICRA's expectations that SPBF will continue to benefit from its experience in the poultry business and from the in-house feed production, enabling it to register steady business growth, going forward.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the poultry sector – While the company was incorporated in 2010, its promoters have a long-standing experience of around 30 years in the poultry business. The extensive experience of its promoters helps the company in establishing business relations with new customers, resulting in sales growth and revenue visibility.

Healthy revenue growth in recent years – The company has posted steady revenue growth since FY2018. The top line has grown to ~ Rs. 360 crore in FY2022 from ~Rs. 181 crore in FY2018. The strong growth of ~50% reported in FY2022 was on account of increase in volume as well as improved broiler realisations. Maintaining the momentum, the company has already recorded sales of ~Rs. 225 crore for 7M FY2023.

Credit challenges

Moderate scale of operations – Despite posting consistent growth in recent years, SPBF's scale of operations continue to remain moderate in the highly competitive poultry sector, resulting in limited economies of scale.

High competitive intensity limits pricing flexibility; operations also exposed to cyclicity associated with poultry sector and industry risk of disease outbreak – SPBF operates in the highly fragmented poultry industry, which is characterised by many

small and medium-sized players. The numerous players fuel competition and limit their ability to command premium on their product offerings, thereby exerting pressure on margins to an extent. Further, in line with the nature of the poultry industry the company's profitability is also exposed to volatility in the poultry business, especially in case of any disease outbreak like avian influenza (bird flu) as well as inherent seasonality in the industry.

Exposure to volatility in raw material prices could impact profitability — The raw material cost, soya and maize, is a major expense head of the company, accounting for around 85–90% of its total cost. Prices of these commodities are largely driven by agro-climatic conditions, international prices (which determine domestic supply), Government regulations and demand from the poultry sector. The company's profitability continues to be susceptible to volatility in raw material prices; however, it can largely pass on the same to its customers.

Liquidity position: Stretched

The liquidity position of SPBF continues to be stretched on account of modest internal accrual generation, modest level of unencumbered cash balances and increasing funding requirements. This has continued to result in fairly high utilisation (averaged at 97% for the 12-month period ended September 2022) of the working capital limits availed from the bank. The company has long-term debt repayment obligations of Rs. 2.3 crore in FY2023 and Rs. 1.7 crore in FY2024. However, internal accrual generation is expected to be sufficient to meet the debt repayment obligations.

Rating sensitivities

Positive factors – ICRA could upgrade SPBF's rating if the company demonstrates a sustained improvement in its scale of operations and profit margins along with an improvement in its liquidity position.

Negative factors – The rating may be downgraded if there is any significant decline in revenues or profitability or if the company undertakes any higher-than-anticipated debt-funded capex. The rating may be downgraded if the interest coverage ratio is less than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 2010, SPBF is engaged in breeding and sales of broiler birds, which formed around 98% of its total sales in FY2022. The company also sells other poultry products, such as chicks, culls, eggs and feed, among others. SPBF's presence is restricted to Maharashtra with most of its sales generated by the Pune and Nashik districts. The company is self-sufficient in meeting its breeding requirements, with chick placement of ~14.0 lakh per month. The registered office of SPBF along with its breeder farm and hatchery are in Pune. In FY2022, the company commissioned its feed mill plant in Ranjangaon. With this, the company is now self-sufficient in meeting its feed requirements in-house.

Key financial indicators (audited)

SPBF Standalone	FY2021	FY2022*
Operating income	242.5	362.9
PAT	25.8	2.3
OPBDIT/OI	12.6%	2.0%
PAT/OI	10.6%	0.6%
Total outside liabilities/Tangible net worth (times)	3.3	4.8
Total debt/OPBDIT (times)	0.7	4.2
Interest coverage (times)	15.6	4.2

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

Status of non-cooperation with previous CRA: CRISIL Limited, vide its press release dated September 15, 2021, has mentioned that it has been consistently following up with Siddhivinayak Poultry Breeding Farm & Hatcheries Pvt. Ltd. for obtaining information through letters and emails (dated February 22, 2021 and August 13, 2021) among others, apart from telephonic communication. However, the issuer has remained noncooperative. Based on the best available information, the ratings of the bank facilities of SPBF were revised to CRISIL B/Stable/ISSUER NOT COOPERATING from CRISIL BB-/Stable/ISSUER NOT COOPERATING.

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Sept 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Nov 7, 2022	Oct 07, 2021	Jan 01, 2021	July 3, 2019
1 Term loans	Long term	14.25	14.25	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)
2 Fund-based bank facilities	Long term	14.00	--	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)
3 Unallocated	Long term	6.75		[ICRA]BB(Stable)	[ICRA]BB(Stable)	[ICRA]BB(Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Fund based – Cash Credit	Simple
Unallocated amount	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	Term Loan	FY2019	7.65% - 9.40%	FY2029	14.25	[ICRA]BB(Stable)
NA	Cash Credit	NA	NA	FY2024	14.00	[ICRA]BB(Stable)
NA	Unallocated	NA	NA	FY2026	6.75	[ICRA]BB(Stable)

Source: Company data

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

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