April 13, 2023 (Revised)

Sneha Farms Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	Rating assigned at [ICRA]A+(Stable)
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has considered the consolidated business and financial risk profiles of Sneha Farms Private Limited (SFPL), Sneha Gold Proteins Private Limited (SGPPL), and Sneha Foods and Feeds Private Limited (SFFPL), referred to as the Sneha Group (SG), given the close business, financial and managerial linkages among them.

The rating assigned factors in the market leadership position of SG in Telangana and Andhra Pradesh and established track record of operations of the group across 3 decades. ICRA also notes the Group's integrated nature of operations with presence across various stages of the value chain, including manufacturing of animal feeds, breeder farming, hatchery, broiler farming, layer farming, chicken processing, soya and rice bran oil extraction and refining, which strengthen the competitive position of the Group. The Group derives significant benefits from forward integration initiatives wherein a sizeable proportion of its broiler sales is consumed through its own channels including processed plant, or own retail shops, or its 2500+ strong dealer network operated through a franchisee model. Access to alternate routes of sale improves SG's bargaining power with their traders.

The ratings also consider SG's healthy operating metrics, which along with forward integration and procurement of better quality raw material during harvest season resulted in sustained healthy operating margins for the group. While margins in Q4 FY2023 are expected to dip sharply on account of weak realisations, the company is expected to record healthy operating margins of over 10% in FY2023 and FY2024. Healthy profitability has resulted in strong gearing of 0.7 times as on December 31, 2022. Coverage metrics also remain healthy with DSCR of 3.4 times in 9M FY2023. While the expected increase in debt is expected to moderate the coverage metrics in the next 12-24 months, DSCR will continue to remain healthy at over 2 times.

The ratings are, however, constrained by the volatility of margins inherent to the poultry sector. While ICRA notes that forward integration and stocking up of raw material during harvest season resulted in better margins for SG compared to players focussed on broilers, its earnings remain susceptible to highly volatile feed prices, which are dependent on agro-climatic conditions (maize and soya being the main raw materials for poultry feed manufacturing), international prices and government interventions in terms of setting the minimum selling prices (MSP), export-import policies etc. Moreover, its margins are also susceptible to the volatility in broiler realisations due to the seasonal nature of demand / supply of poultry products in India, which has a significant bearing on the profitability of all integrators, including the Sneha Group. The Group, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu) which are further exacerbated by concentration of revenues from Telangana and Andhra Pradesh markets. However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent.

ICRA also takes note of the significant debt-funded capex of over Rs. 650 crore planned by the group over the next few years. Execution of the capex within the budgeted cost and estimated timeframe and timely ramp-up of operations will remain critical from the credit perspective.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's overall business profile will remain strong, supported by a sustained revenue growth and healthy cost structure. Its consolidated financial profile is likely to remain strong with healthy cash accruals, and comfortable debt coverage metrics despite the sizeable debt-funded capex.

Key rating drivers and their description

Credit strengths

Strong brand position of the company in Telangana and Andhra Pradesh market; established operational track record of the company in the poultry businesses – SG has an established track record of operations of over 3 decades. In terms of geographical revenue mix, it is present in only three states, Karnataka, Andhra Pradesh, and Telangana, and it enjoys market leadership position in Andhra Pradesh and Telangana. It has healthy market share in Telangana and is a prominent retail brand in the region. Its market power in the geographies it to charge a premium on broiler prices which enables it to protect margins to an extent. It also enables the group to monitor their farms more closely to prevent pilferage and reduce cost of production. Further, logistics costs are controlled as feed mills, and broiler farms are largely located close to point of sale.

Well integrated presence across value chain and significant forward integration which helps in better pricing – The Group has integrated nature of operations with its presence across various stages of the poultry value chain, including manufacturing of animal feeds, breeder farming, hatchery, broiler farming, layer farming, chicken processing, soya and rice bran oil extraction and refining. Further, it derives significant benefits from forward integration initiatives as it utilises a sizeable portion of its broiler production in processed plant, own retail shops, or its 2500+ strong dealer network operated through a franchisee model. Access to alternate routes of sale improves SG's bargaining power with their traders. These strengthen the competitive position of the Sneha Group, as reflected by a marked improvement in the overall scale of operations over the years and a favourable cost structure.

Healthy financial profile – Operating margins have remained healthy for the company even in periods of stress for the industry. However, margins in Q4 FY2023 expected to dip sharply on account of weak realisations. Consolidated margins are therefore expected to be at ~10% in FY2023, which is expected to be sustained in FY2024 and FY2025. The company's capacity to generate healthy margins has resulted in strong gearing of 0.7 times in 9M FY2023. Coverage metrics also remained healthy with DSCR of 3.4 times in 9M FY2023. While the expected increase in debt is expected to moderate the coverage metrics, DSCR will continue to remain healthy at over 2 times.

Credit challenges

Profit margins vulnerable to price volatility, raw material price fluctuations and inherent cyclicality of the poultry industry – The major raw materials required for poultry feed are maize and soya de-oiled cake. SFFPL has solvent extraction facilities for manufacturing soya de-oiled cake from soya seeds. The prices of raw materials (maize and soya seeds) remain volatile on the back of fluctuation 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 Group's profitability, like other entities in the poultry business, will remain vulnerable to the movement in feed prices. Further, volatility in broiler realisations, due to the seasonal nature of demand / supply of poultry products in India, has a bearing on the profitability of all integrators. However, forward integration and stocking up of raw material during harvesting season has aided SG in recording healthy operating margins even in periods of stress in the industry.

Revenues concentrated in Telangana and AP; exposed to risk of disease outbreaks, inherent to the poultry industry - The Group, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu) which are further exacerbated by concentration of revenues (over 80% of revenues) on Telangana and Andhra Pradesh markets. However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent.

Liquidity position: Adequate

SG had cash balance of ~Rs. 79 crore as on December 31, 2022 and undrawn working capital lines of ~Rs. 50 crore as on February 28, 2023. It is expected to generate retained cash flows of Rs. 250-300 crore in FY2024 and draw down term loans of ~Rs. 280 crore which is expected to be adequate to meet repayment obligations of Rs. 96.2 crore and capex obligations of over Rs. 350 crore in FY2024.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates healthy revenue growth and sharp improvement in its earnings profile, leading to improvement in capital structure and debt protection metrics, and strengthening of its liquidity profile. Specific credit metrics that may lead to a upgrade of the ratings include TD/OPBITDA of less than 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings may emanate from any sharp deterioration in revenue or earnings, or weakening of the liquidity position. Specific credit metrics that may lead to a downgrade of the ratings include weakening of DSCR below 2 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating approach - Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated business and financial risk profiles of SFPL, SGPPL, and SFFPL (as mentioned in Annexure-2), given the close business, financial and managerial linkages among them

About the company

Sneha Group was established in 1982 as 'Ram Reddy Chicken Market' with group later being rebranded as 'Sneha Farms Private Limited' (SFPL) in 1994. The flagship entity is involved in the business of poultry farming (Vencobb breed), poultry breeding, broiler chicken production, hatching of eggs, frozen chicken, commercial layer farming, and manufacture of poultry feed. Its group company, Sneha Foods and Feeds Private Limited (SFFPL), is involved in the sale of soya oil, and soya de-oiled cake. Sneha Farms Private Limited holds a 5.8% stake in the entity.

In 2022, Sneha Gold Proteins Private Limited (SGPL) was incorporated as a 100% subsidiary of SFPL for manufacturing of soya oil through construction of a soya SEP and a soya refinery with an installed capacity of 800 TPD and 150 TPD respectively.

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	3,441.1	4,698.4
PAT	263.9	323.2
OPBDIT/OI (%)	13.3%	11.6%
PAT/OI (%)	7.7%	6.9%
Total outside liabilities/Tangible net worth (times)	1.1	0.9
Total debt/OPBDIT (times)	1.5	1.3
Interest coverage (times)	7.9	9.4

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

S.No	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Apr 13, 2023	-	-	-
1	Issuer Rating	Long-term	-	-	[ICRA]A+ (Stable)	-		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	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 No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]A+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Direct Subsidiaries			
Sr no	**Name of subsidiary**	**Ownership (%)**	**Consolidation Approach**
1	Sneha Gold Proteins Private Limited	100.0%	Full Consolidation
2	Sneha Foods and Feeds Private Limited	5.8%	Full Consolidation

Corrigendum

Pure-line breed name added in ‘About the company’ section

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