April 28, 2023

Suguna Foods Private Limited: Ratings downgraded to [ICRA]BBB+/[ICRA]A2; Outlook revised to 'Negative'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non – Convertible Debenture Programme	332.0	332.0	Downgraded to [ICRA]BBB+ from [ICRA]A-; outlook revised to 'Negative' from 'Stable'
Long Term Loans	208.76	208.76	Downgraded to [ICRA]BBB+ from [ICRA]A-; outlook revised to 'Negative' from 'Stable'
Long Term Fund Based facilities	1,361.75	1,461.75	Downgraded to [ICRA]BBB+ from [ICRA]A-; outlook revised to 'Negative' from 'Stable'
Short Term Non-Fund Based facilities	7.25	7.25	Downgraded to [ICRA]A2 from [ICRA]A2+
Long-term/ Short -term – Unallocated	272.24	172.24	Long-term rating downgraded to [ICRA]BBB+ from [ICRA]A-; outlook revised to 'Negative' from 'Stable'; short-term rating downgraded to [ICRA]A2 from [ICRA]A2+
Total	**2,182.00**	**2,182.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on debt instruments of Suguna Foods Private Limited (SFPL) considers the weaker than expected performance during 9M FY2023 (provisional) as reflected by net losses of ~Rs. 260 crore and sustained increase in debt levels, thus resulting in sharp moderation in debt protection metrics. Also, the company's Q4 FY2023 performance is estimated to have been impacted by sharp decline in realisations in February and March 2023. SFPL's earnings profile was affected by subdued realisations, rising raw material costs (especially maize), moderate operating efficiencies, and costs incurred towards research and development of its pureline breed, Sunbro. ICRA understands that part of the research and development costs incurred towards Sunbro could be capitalized in FY2023, though the quantum remains to be seen. However, the cash losses incurred over the past two years has led to an increase in debt levels to ~Rs. 2,300 crore as on December 31, 2022 from ~Rs. 1,300 crore as on March 31, 2021, which in turn weakened the coverage and capitalization metrics. ICRA also understands from the management that the new strains of the breed are performing better in the recent past on most operational parameters such as FCR (feed conversion ratio), mortality rates, etc., which in conjunction with healthy demand outlook is expected to lead to improvement in financial metrics in FY2024. ICRA will continue to monitor the same. The ratings continue to be constrained by the vulnerability of earnings 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.

The ratings, however, remains supported by SFPL's dominant market position in the domestic broiler industry, its large scale of operations and stable demand for broilers. SFPL generated revenue in excess of Rs. 8,400 crore during 9M FY2023. 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.

The Negative outlook on the rating indicates ICRA's expectation that the company's debt levels will remain elevated in the near term and accordingly its debt coverage metrics will remain under pressure. Adequate improvement in the company's margins and debt metrics, supported by improved performance of the breed, healthy realisations, and stable raw material costs would be critical monitorables.

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 almost four decades.

Large scale of operations with a diversified geographic presence – The company is the largest integrated player in the poultry industry and is present in 18 states. It has a large scale of operations (~Rs. 10,758 crore for FY2022) with integrated presence across the value chain. The company's long-standing relationship with large number of contract farmers spread across 18 States, access to latest technology in poultry breeding and establishment of in-house feed production capabilities aided in SFPL becoming one of the largest integrated players in poultry industry. Over the last few years, the company has increased the captive feed production capacities by acquiring assets and captive capacity meets a significant part of in-house requirements.

Well-integrated presence across value chain – SFPL has long relationships with a 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

Earnings impacted in the last two years; financial performance exposed to inherent cyclicality of 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 of soyabean, operating margins dipped to 0.3% from 6.1% in FY2021. In 9M FY2023, the company continued to incur cash losses owing to the impact of higher raw material costs, moderate operating efficiency, and expenses & investments towards development of new strains of 'Sunbro'; increased working capital requirements and cash losses incurred led to a significant increase in debt levels to ~Rs. 2,300 crore as on December 31, 2022 from ~Rs. 1,300 crore as on March 31, 2021. This in turn has led to weakening of coverage and capitalization metrics. However, ICRA understands from the management that the new strains of the breed have been delivering better operational parameters in the recent past, which in conjunction with healthy demand outlook is expected to lead to improvement in financial metrics in FY2024.

Relatively high concentration towards low-margin live-bird segment vis-a-vis peers – SFPL derives ~80% 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

SFPL had free cash balance of Rs. 69 crore as on March 31, 2023. It also has buffer of Rs. 264 crore against drawing power as on February 2023. It is expected to generate retained cash flows of Rs. 55-65 crore in FY2024. This is adequate to meet repayment obligations of Rs. 122 crore and capex expectations of Rs. 100 crore. Moreover, Suguna Holdings Private Limited (SHPL), which holds over 99.7% stake in SFPL, had free cash and liquid investments of over Rs. 150 crore as on March 31, 2023. 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 interest coverage ratio of over 4.0 times on a sustained basis.

Negative factors – Negative pressure on SFPL's rating could arise if earnings continue to remain low, impacted by demand, input costs, or lower operating efficiencies. Absence of material improvement in capitalisation or coverage metrics or elongation in working capital cycle, or materially higher debt-funded capex impacting its debt metrics could also lead to a rating downgrade.

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	FY2021	FY2022
Operating income	9,155.1	10,758.1
PAT	364.1	-120.3
OPBDIT/OI (%)	6.1%	0.3%
PAT/OI (%)	4.0%	-1.1%
Total outside liabilities/Tangible net worth (times)	1.8	3.2
Total debt/OPBDIT (times)	2.3	67.2
Interest coverage (times)	5.0	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 (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Apr 28, 2023	Aug 11, 2022	Jun 30, 2022	Jun 28, 2021	June 12, 2020	April 06, 2020
1	NCD	Long term	332.0	256.4	[ICRA]BBB+(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&
2	Term Loan	Long term	208.76	207.7	[ICRA]BBB+(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&
3	Fund-Based	Long term	1,461.75		[ICRA]BBB+(Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&
4	Non-Fund Based	Short term	7.25		[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2&
5	Unallocated	Long Term/Shor Term	172.24		[ICRA]BBB+(Negative)/[ICRA]A2	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]A- (Stable)/[ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+&/ [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: Click Here

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	135.7	[ICRA]BBB+(Negative)
INE0DLQ07022	NCD	April 2021	ADB Funding Rate +2.5%	FY2024	18.3	[ICRA]BBB+(Negative)
INE0DLQ07030	NCD	June 2021	6 month MIBOR + 0.985% +3%	FY2029	101.5	[ICRA]BBB+(Negative)
INE0DLQ07048	NCD	Sep 2021	ADB Funding Rate +2.5%	FY2024	36.7	[ICRA]BBB+(Negative)
Yet to be placed	NCD	-		-	39.8	[ICRA]BBB+(Negative)
NA	Term Loan-1	FY2021		FY2026	29.0	[ICRA]BBB+(Negative)
NA	Term Loan-2	FY2021		FY2027	82.55	[ICRA]BBB+(Negative)
NA	Term Loan-3	FY2021		FY2025	6.15	[ICRA]BBB+(Negative)
NA	Term Loan-4	FY2021		FY2027	30.0	[ICRA]BBB+(Negative)
NA	Term Loan-5	FY2021		FY2030	61.06	[ICRA]BBB+(Negative)
NA	Long-term Fund Based				1,461.75	[ICRA]BBB+(Negative)
NA	LC				7.25	[ICRA]A2
NA	Unallocated				172.24	[ICRA]BBB+(Negative)/[ICRA]A2

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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