October 10, 2023

Sneha Farms Private Limited: Rating reaffirmed

Summary of rating action

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

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has taken consolidated view of Sneha Farms Private Limited (SFPL) and Sneha Foods and Feeds Private Limited (SFFPL), given the close operational, financial and management linkages between the group entities. This apart, ICRA has also consolidated the financials of Sneha Gold Proteins Private Limited (SGPPL) and Singh Poultry Private Limited (SPPL) given the support extended by SFPL to these entities. SFPL, SFFPL, SGPPL, and SPPL, together, are referred to as the Sneha Group (SG).

The rating factors in the market leadership position of SG with strong market share of 35-40% in Telangana and Andhra Pradesh and established operational track record of the Group across three 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 acquired SPPL in May 2024, leading to increase in its breeder capacity to 8.0 lakh (from 7.0 lakh earlier), which would drive growth in broiler farming capacity, thereby supporting revenue growth, going forward. 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 rating also considers SG's healthy revenue growth at a CAGR of ~15% over the past four years till FY2023. Standalone performance in Q1 FY2024 continues to be healthy with revenues at around Rs. 1,267.0 crore. High realisations, coupled with healthy demand, supported revenue growth in Q1 FY2024. The company is expected to record revenue growth of 5-10% in FY2024, driven by growth in realisations and volumes in the live bird segment and healthy growth in the processed meat segment. SG's operating margins moderated to 9.3% in FY2023 from ~10-12% in FY2022 owing to sharp decline in realisations in Q4 FY2023 due to oversupply. However, realisations improved significantly in Q1 which led to improvement in margins. Going forward, ICRA expects the company to record revenue growth of 5-10% in FY2024 driven by growth in realisations and volumes in the live bird segment and healthy growth in the processed meat segment.

The ratings are, however, constrained by volatility of margins inherent to the poultry sector. SG's earnings are 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 for 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. However, ICRA notes that SG's forward integration, stocking up of raw materials during harvest season resulted in lower volatility and better margins for SG compared to players focused on broilers. Moreover, ongoing upgradation of a part of its farms to Environmental Controlled (EC) farms would reduce the cost of production.

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 exacerbated by concentration of revenues in the 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. 700.0 crore planned by the Group over the next two 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 markets; established operational track record in the poultry businesses – SG has an established operational track record of over three 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 a healthy market share in Telangana and is a prominent retail brand in the region. Its dominant market share in the geographies enables it to charge a premium on broiler prices, protecting 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 and in-house feed production – 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. The main raw material required in poultry farms is feed, which accounts for the major cost. The Group's entire feed requirement is met from in-house production, enabling it to have a better control on the quality of the feed which results in better feed conversion ratio (FCR) and reduces cost of production for broilers and breeders. It also enjoys operating leverage through centralised maize and soya procurement. 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, reflected in 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 and relatively lesser volatile compared to other players in the industry. SG's margins contracted to 9.3% in FY2023 against 10-12% in FY2022 on account of weak realisations in Q4 FY2023. However, the Group's margins are expected to improve to ~10-11% in FY2024 on the back of improved realisations and benefits of operating leverage from increased scale. SG's healthy margins resulted in strong gearing of 0.7 times in FY2023. The coverage metrics also remained healthy with DSCR of 2.5-2.8 times in FY2023. While the significant debt-funded capex in the near to medium term is expected to moderate the Group's coverage metrics, DSCR will continue to be healthy at over 2 times.

Credit challenges

Profit margins vulnerable to price volatility and raw material price fluctuations 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 account 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 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.

Inherent risk in poultry business; however, the company is adopting various measures to mitigate the risks to an extent and revenues concentrated in Telangana and AP – The Group, like other entities in the poultry and related businesses, is exposed to the inherent industry risk of disease outbreaks (bird flu or avian influenza) which are exacerbated by concentration of revenues (over 80% of revenues) in the Telangana and Andhra Pradesh markets. However, ICRA notes that the company has taken several measures such as having breeder farms with capacity not exceeding 30,000 birds which ensure that disease outbreak in any farm impacts only a smaller proportion of its capacity and is contained to that farm, mitigating the risk to an extent.

Sizeable capex plans in the near term - SG is expected to incur sizeable capex of over Rs. 700.0 crore in the next two years for multiple projects, including feed mills, solar power plant, maize silos, broiler farms, etc. It has incorporated a subsidiary company, SGPPL, for manufacturing of soya doc and soya oil through construction of soya SEP and soya refinery with an installed capacity of 800 TPD (tonnes per day) and 150 TPD, respectively. SGPL is being set up in Nanded, Maharashtra to take advantage of 100% state GST subsidy, which will be spread over 10 years. Commercialisation may take another 24 months from September 2023, post which revenues will be generated at a scale similar to SFFPL.

Liquidity position: Adequate

SG had a cash and bank balance of ~Rs.50.0 crore as on March 31, 2023, and undrawn working capital lines of ~Rs. 50-100.0 crore. It is expected to generate retained cash flows of Rs. 250-300 crore in FY2024 with repayment obligations of Rs. 80-100.0 crore and capex obligations of Rs. 350.0-400.0 crore in FY2024.

Rating sensitivities

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

Negative factors – Pressure on the rating may emanate from any sharp deterioration in revenue or earnings or weakening of the liquidity position. A specific credit metric that may lead to a downgrade is if DSCR weakens below 2 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has taken consolidated view of Sneha Farms Private Limited (SFPL) and Sneha Foods and Feeds Private Limited (SFFPL), given the close operational, financial and management linkages between the group entities. This apart, ICRA has also consolidated the financials of Sneha Gold Proteins Private Limited (SGPPL) and Singh Poultry Private Limited (SPPL) given the support extended by SFPL to these entities.

About the company

Sneha Group was established in 1982 as Ram Reddy Chicken Market, with the Group later being rebranded as Sneha Farms Private Limited (SFPL) in 1994. The flagship entity is involved in the business of poultry farming, 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 an 8.3% stake in the entity.

In 2022, Sneha Gold Proteins Private Limited (SGPPL) 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. In FY2024, the Sneha Group acquired Singh Poultry Private Limited, which has an installed capacity of 1 lakh breeder birds for a consideration of Rs. 50.0 crore (funded through Rs. 18.95 crore and rest through internal accruals).

Key financial indicators (audited)

Consolidated	FY2021	FY2022
Operating income	4,001.7	5,492.6
PAT	270.1	323.8
OPBDIT/OI (%)	11.7%	10.0%
PAT/OI (%)	6.8%	5.9%
Total outside liabilities/Tangible net worth (times)	1.2	0.9
Total debt/OPBDIT (times)	1.5	1.3
Interest coverage (times)	7.8	9.1

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	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 10, 2023	Apr 13, 2023	-	-	-
1	Issuer Rating	Long-term	-	-	[ICRA]A+ (Stable)	[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

Company Name	Ownership	Consolidation Approach
Sneha Gold Proteins Private Limited	100.0%	Full Consolidation
Sneha Foods and Feeds Private Limited	8.3%	Full Consolidation
Singh Poultry Private Limited	100.0%	Full Consolidation

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi

+91 40 4067 6515

Nithya.Debbadi@icraindia.com

Etikala Raviteja
+91 40 4547 4829
etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches