

October 27, 2023

Singh Poultry Private Limited: [ICRA]BBB- (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	8.25	[ICRA]BBB- (Stable); assigned
Long-term – Fund-based – Term loan	6.80	[ICRA]BBB- (Stable); assigned
Long-term – Unallocated	4.95	[ICRA]BBB- (Stable); assigned
Total	20.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating considers the strong operational and financial support enjoyed by Singh Poultry Private Limited (SPPL) from its parent entity, Sneha Farms Private Limited (SFPL). SFPL is primarily engaged in breeder farming, hatchery, broiler farming, layer farming, chicken processing, and other such operations. SFPL, the flagship entity of the Sneha Group (SG), is the market leader in Telangana and Andhra Pradesh with an established operational track record of over three decades. Moreover, SPPL is strategically important to SG due to its 1-lakh breeder capacity with a committed supply of parent day-old chicks (DoCs) from Venkateshwara Hatcheries (Venky's) for its Vencobb breed. Such factors make SPPL crucial for SG in expanding its broiler farming operations. The rating further considers the operational track record of the company in the poultry business.

The rating, however, remains constrained by SPPL's small-scale operations with a single farm in Telangana, and also due to the company's modest financial profile, which is characterised by volatile margins in the past and leveraged capital structure. SPPL's profit margins are susceptible to volatility in bird realisations due to the seasonal nature of the demand/supply of poultry products in India, which significantly impacts the profitability of all integrators. Moreover, the price of key raw materials, such as soya De Oiled Cake (DOC) and maize, depends on agro-climatic conditions, international prices, and government policies with respect to the minimum selling prices (MSP), export/import policies, and other such factors. However, going forward, SPPL's margins are expected to improve, benefitting from its parent company's expertise in the poultry sector operations and low off-take risks as SPPL's entire production would be sold to its parent, SFPL. The company, akin to other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks such as bird flu.

The Stable outlook on the rating reflects ICRA's opinion that SPPL will continue to scale up its business while maintaining its profitability on the back of healthy demand from its parent company and, if required, it would receive timely support from the parent entity.

Key rating drivers and their description

Credit strengths

Support from SFPL – SPPL is a 100% subsidiary of SFPL, which is the market leader in Telangana and Andhra Pradesh with an established track record of operations of over three decades in the poultry business. SPPL benefits from the parent company's established supplier and customer base, as 100% of its sales are made to the parent group. The parent company's experience in the industry and high operational synergies with it, are expected to improve SPPL's operational efficiency, leading to improved margins. SFPL is also expected to support SPPL, as and when required, given the financial and operational linkages.

Established operational track record of the company in the poultry businesses – Incorporated in 1976, SPPL has a long operational track record in the poultry business. Additionally, the company continues to benefit from the extensive experience of its parent entity, SFPL, and the promoters of SG in the poultry business.

Credit challenges

Small scale of operations with single farm in Telangana – SPPL’s scale of operations has remained small with a single farm in Telangana, with revenue of Rs. 33.7 crore in FY 2023. The company’s margins have been volatile for the past three years on account of fluctuating realisations. However, going forward, its entire production would be sold to its parent company. Moreover, the parent’s experience and operational synergies with it would improve SPPL’s margins gradually over the next two years. While the company’s capital structure is expected to remain leveraged over the near term, its coverage metrics are likely to improve with improved margins.

Profit margins vulnerable to price volatility, raw material price fluctuations and inherent cyclicity of the poultry industry – The prices of key raw materials (maize and soya DOC) remain volatile on the back 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 company’s profitability, like other entities in the poultry business, will remain vulnerable to the movement in raw material prices. Additionally, volatility in broiler egg realisations, owing to the seasonal nature of the demand/supply of poultry products in India, has a bearing on the profitability of all integrators.

Exposed to the risk of disease outbreaks and intense competition, inherent to the poultry industry – The company, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu), which is further exacerbated by the concentration of revenues (100% of revenues) in Telangana market. However, ICRA considers various bio-security measures adopted by the Sneha Group over the years, which mitigate the risk to an extent.

Liquidity position: Stretched

SPPL’s liquidity position is stretched with cash and bank balance of Rs. 0.1 crore and minimal buffer in the working capital of Rs. 0.5-0.7 crore against repayment obligations of Rs. 1.5-2.0 crore over the next 12 months. However, the company is expected to generate retained cash flows of Rs. 2.0-4.0 crore and does not have any major capex plan in the near- to medium-term. Moreover, SFPL has infused unsecured loans to support SPPL’s liquidity.

Rating sensitivities

Positive factors – The rating could be upgraded if there is a sustained improvement in SPPL’s earnings leading to improved debt metrics. Moreover, an improvement in the credit profile of the parent, SFPL, could trigger a rating upgrade.

Negative factors – The rating may be downgraded if there is a deterioration in the credit profile of the parent entity, SFPL, or the weakening of linkages with its parent. Further, negative pressure on the rating could emerge with a decline in the earnings or any significant rise in the debt-funded capex, resulting in a moderation of debt coverage metrics or the liquidity position of the company.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Implicit support from the parent – Sneha Farms Pvt. Ltd.
Consolidation/Standalone	ICRA has considered the standalone financials of SPPL along with implicit support from SFPL to arrive at the rating.

About the company

Singh Poultry Private Limited, a 100% subsidiary of Sneha Farms Private Limited (SFPL), is engaged in breeder farming with a capacity of 1 lakh breeders. It was acquired by SFPL in July 2023, for a consideration of Rs. 50.0 crore funded through ~Rs. 19.0 crore of term debt and ~Rs. 31.0 crore of internal accruals from SFPL. SFPL is a prominent player in the poultry industry with

its presence in poultry farming, poultry breeding, broiler chicken production, hatching of eggs, frozen chicken, commercial layer farming, and manufacturing of poultry feed.

Key financial indicators (audited)

Consolidated	FY2022	FY2023*
Operating income	30.0	33.7
PAT	0.5	-0.5
OPBDIT/OI (%)	12.9%	4.8%
PAT/OI (%)	1.8%	-1.4%
Total outside liabilities/Tangible net worth (times)	5.2	10.5
Total debt/OPBDIT (times)	4.6	23.8
Interest coverage (times)	1.9	0.9

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No	Instrument	Type	Current Rating (FY2024)		Chronology of Rating History for the past 3 years			
			Amount Rated (Rs. crore)	Amount Outstanding as of Aug 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 27, 2023	-	-	-
1	Fund based- Cash credit	Long-term	8.25	-	[ICRA]BBB- (Stable)	-	-	-
2	Fund based- Term loan	Long-term	6.80	6.50	[ICRA]BBB- (Stable)	-	-	-
3	Unallocated	Long-term	4.95	-	[ICRA]BBB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Fund based- Cash credit	Simple
Long Term- Fund based- Term loan	Simple
Long 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Long Term- Fund based- Cash credit	NA	NA	NA	8.25	[ICRA]BBB- (Stable)
NA	Long Term- Fund based- Term loan	FY2023	NA	FY2029	6.80	[ICRA]BBB- (Stable)
NA	Long Term - Unallocated	NA	NA	NA	4.95	[ICRA]BBB- (Stable)

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

ANALYST CONTACTS

Shamsher Dewan

+91 12 4454 5300

shamsherd@icraindia.com

Nithya Debbadi

+91 40 4067 6515

Nithya.Debbadi@icraindia.com

Srikumar K

+91 44 4596 4318

ksrikumar@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

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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



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