January 10, 2024 (Revised)

Suguna Foods Private Limited: Ratings reaffirmed; outlook revised to Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture Programme	277.00	277.00	[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Long Term Loans	208.76	188.00	[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Long Term Fund Based facilities	1,461.75	1611.75	[ICRA]BBB+ reaffirmed; outlook revised to Positive from Stable
Short Term Non-Fund Based facilities	7.25	7.25	[ICRA]A2 reaffirmed
Long-term/ Short -term – Unallocated	172.24	43.00	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook revised to Positive from Stable
Total	**2,182.00**	**2,127.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Positive from Stable considers the expected improvement in the performance of Suguna Foods Private Limited (SFPL), marked by rebound in operating margins to 3-5% in FY2024, against operational losses in FY2023. Coupled with equity infusion of Rs. 500 crore in FY2024, the same would result in lower debt levels and improved TOL/ TNW. In FY2023, the company incurred operating losses owing to significant costs (Rs. 375 crore) incurred for developing its pureline breed, Sunbro, along with sharp decline in realisations in Q4 FY2023 and high raw material costs.

However, the company recorded operating margin of 4.7% in H1 FY2024 on the back of stabilisation of the breed, which led to improvement in operating metrics such as Feed Conversion Ratio (FCR), absence of any expenses towards breed development, improved realisations, and stable raw material costs. The improved performance is expected to sustain, going forward, on the back of healthy realisations, improved performance of the breed, and various initiatives undertaken by the management, including reducing the concentration on the live bird segment, which witnesses high volatility in margins. In addition, Suguna Holdings Private Limited (SHPL), which holds 99.7% stake in SFPL, has infused Rs. 400-crore equity in SFPL in Q3 FY2024, apart from the Rs. 100-crore equity infused in H1 FY2024, which along with improved profitability, is expected to improve the capital structure and coverage metrics. The ratings remain supported by SFPL's dominant market position in the domestic broiler industry, its large scale of operations and stable demand for broilers. 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 to processed food sales.

The ratings are, however, constrained by the exposure of SFPL's financial performance to the inherent cyclicality in the poultry industry, wherein disease outbreaks, climatic conditions, any adverse movements in broiler realisations, or cost inflation can adversely impact revenues and margins. Moreover, SFPL's revenues are concentrated in the live bird segment vis-à-vis its peers, a segment where margins have been volatile. This was witnessed during FY2022 and FY2023, wherein increase in commodity prices, primarily maize and soya bean, drop in realisations and high expenses towards breed development impacted its profitability. The decline in margins, coupled with higher inventory holding, resulted in significant increase in working capital debt to Rs. 1,734.0 crore as on March 31, 2023, from Rs. 1,514.5 crore as on March 31, 2022. Increased debt and operating losses led to moderation in coverage indicators. However, the equity infusion along with substantial improvement in margins in FY2024 is expected to lead to improved debt protection metrics.

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. GB 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. 11,228 crore for FY2023) with integrated presence across the value chain. The company's long-standing relationships with a large number of contract farmers across 18 states, access to latest technology in poultry breeding, and establishment of in-house feed production capabilities have aided SFPL in becoming one of the largest integrated players in the poultry industry. Over the last few years, the company has increased its captive feed production capacity by acquiring assets. Its captive capacity meets its entire in-house requirements, while the feed is also sold to other players.

Well-integrated presence across value chain – SFPL enjoys established relationships with contract farmers across multiple states, with access to latest technology in poultry breeding and established in-house feed production capabilities. It has a 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

Financial performance exposed to inherent cyclicality of poultry industry as witnessed in last two years – The financial performance of SFPL is exposed to the inherent cyclicality in the poultry industry. The company's margins were under pressure in the past two years (operating loss in FY2023 and low operating margin of 0.2% in FY2022) owing to high raw material costs, lower realisations in select months, moderate operating efficiency, and expenses and investments towards development of new strains of Sunbro. Increase in working capital requirements and cash losses led to a significant increase in debt levels to ~Rs. 2,300 crore as on March 31, 2023 from ~Rs. 1,300 crore as on March 31, 2021. This in turn led to weakening of coverage and capitalisation metrics. However, ICRA understands from the management that the new strains of the breed have been delivering better operational parameters in recent times, which in conjunction with the equity infusion of Rs. 500-crore to reduce debt and creditors, healthy demand outlook and stable raw material costs, is expected to help improve its financial metrics in FY2024.

Relatively higher concentration towards low-margin live bird segment vis-à-vis its peers – SFPL derives ~75-80% of its revenues from the 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 the commoditised nature of the product and market competition. However, the management is focussing on improving revenue share from the processed chicken segment, where 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's exposure to the 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. 69.0 crore as on March 31, 2023. It also has buffer of Rs. 90.0 crore against drawing power as of September 2023. It is expected to generate retained cash flows of Rs. 200-220 crore in FY2024. This is adequate to meet repayment obligations of Rs. 122.0 crore and capex expectations of Rs. 50.0 crore. Moreover, SHPL, which holds over 99.7% stake in SFPL, had free cash and liquid investments of over Rs. 200.0 crore as on March 31, 2023 (at a standalone level). SHPL has infused Rs. 400-crore equity into SFPL in Q3 FY2024, apart from the earlier Rs. 100-crore equity in H1 FY2024. SHPL has supported SFPL in the past as well.

Rating sensitivities

Positive factors – The ratings 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. Any deterioration in capitalisation or coverage metrics, or elongation in working capital cycle on a sustained basis, 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 SHPL. 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/Standalone25	The ratings are based on the company's standalone financial profile.

About the company

Suguna Foods Private Limited (erstwhile Suguna Foods Limited) was incorporated in 1984 as a backyard farm in Udumalpet (Tamil Nadu). It is based in Coimbatore and operates across 18 states. The promoters—Mr. B Soundararajan and his younger brother, Mr. GB Sundararajan—are first-generation entrepreneurs. SFPL initially started out 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, and Suguna Foods Kenya Limited, etc.

Key financial indicators (audited)

SFPL	FY2022	FY2023
Operating income	10,758.1	11,228.1
PAT	-120.3	-354.0
OPBDIT/OI (%)	0.3%	-1.8%
PAT/OI (%)	-1.1%	-3.2%
Total outside liabilities/Tangible net worth (times)	3.2	6.0
Total debt/OPBDIT (times)	66.8	-11.2
Interest coverage (times)	0.3	-1.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts 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 Nov 30, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jan 10, 2024	Nov 06, 2023	Apr 28, 2023	Aug 11, 2022	Jun 30, 2022	Jun 28, 2021	June 12, 2020	April 06, 2020
1	NCD	Long term	277.0	181.0	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&
2	NCD	Long term	-	-	-	[ICRA]BBB+ (Stable) reaffirmed and withdrawn	[ICRA]BBB+ (Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&
2	Term Loan	Long term	188.00	188.00	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+&
3	Fund-Based	Long term	1,611.75	-	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[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+	[ICRA]A2	[ICRA]A2&
5	Unallocated	Long Term /Short Term	43.00	-	[ICRA]BBB+ (Positive)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[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+(Positive)
INE0DLQ07030	NCD	June 2021	6 month MIBOR + 0.985% +3%	FY2029	101.5	[ICRA]BBB+(Positive)
Yet to be placed	NCD	-		-	39.8	[ICRA]BBB+(Positive)
NA	Term Loan-1	FY2021		FY2026	18.0	[ICRA]BBB+(Positive)
NA	Term Loan-2	FY2021		FY2027	44.0	[ICRA]BBB+(Positive)
NA	Term Loan-3	FY2021		FY2025	3.0	[ICRA]BBB+(Positive)
NA	Term Loan-4	FY2021		FY2027	21.0	[ICRA]BBB+(Positive)
NA	Term Loan-5	FY2021		FY2030	53.0	[ICRA]BBB+(Positive)
NA	Term Loan-6	FY2023		FY2032	49.0	[ICRA]BBB+(Positive)
NA	Long-term Fund Based				1,611.75	[ICRA]BBB+(Positive)
NA	LC				7.25	[ICRA]A2
NA	Unallocated				43.00	[ICRA]BBB+(Positive)/[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

Corrigendum

Document dated January 10, 2024 has been corrected with the revision mentioned as follows

(i) The Total Debt/OPBDIT (times) for FY2022 has been corrected in the Key Financial Indicators table.

(ii) The date of the current rating in the Rating history table has been corrected.

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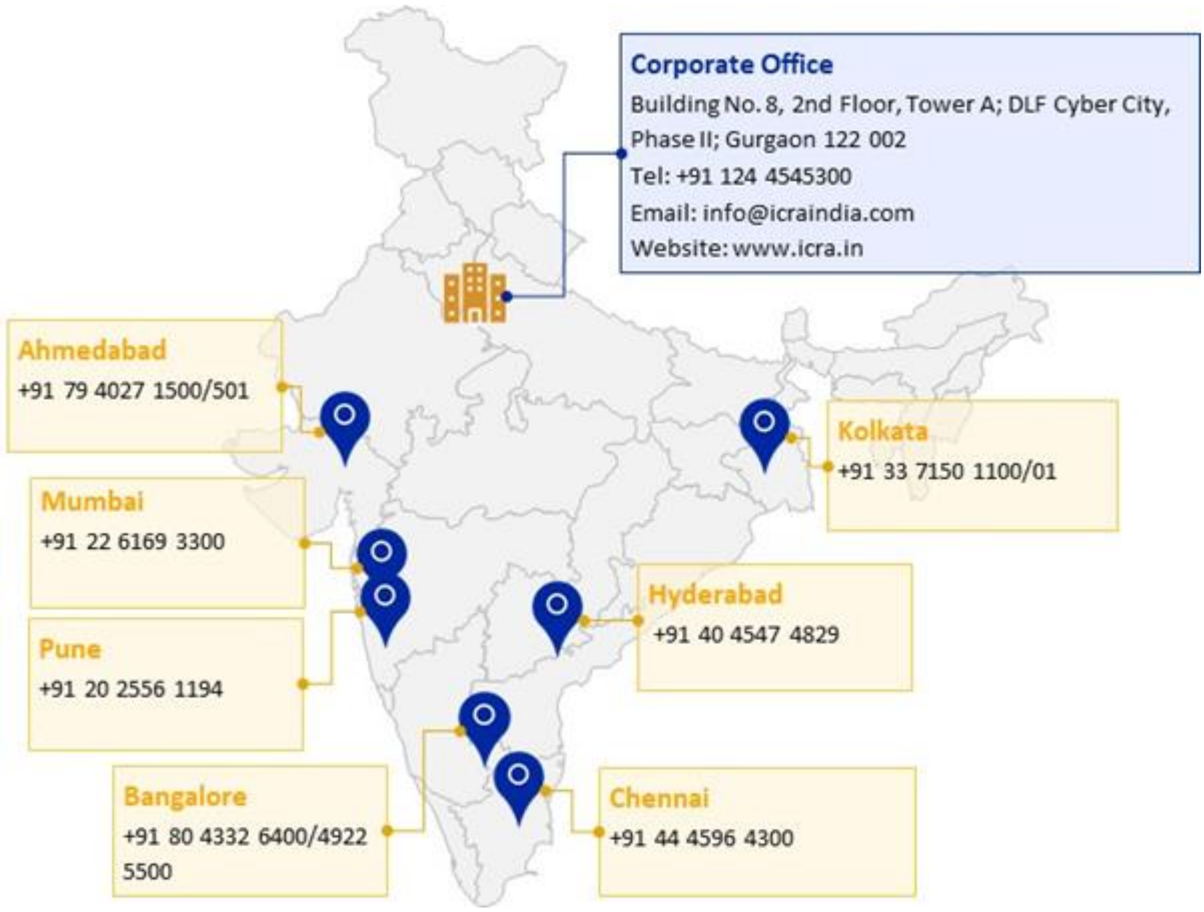

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