February 15, 2024

Swami Feeds Private Limited: Ratings reaffirmed and assigned for enhanced limits

Summary of rating action

Instrument*	Previously Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Cash Credit	100.00	100.00	[ICRA]BBB- (Stable); reaffirmed
Long-term - Term Loan	9.50	48.20	[ICRA]BBB- (Stable); reaffirmed/ assigned for enhanced limits
Short-term – Unallocated Limits	0.50	1.80	[ICRA]A3; reaffirmed/assigned for enhanced limits
Total	**110.00**	**150.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has considered the consolidated business and financial risk profiles of Swami Feeds Private Limited (SFPL) and Swami Chickens Private Limited (SCPL), referred to as the Swami Group (SG), given the close business, financial and managerial linkages between them.

The reaffirmed ratings for SFPL factor in the established track record of the Group and long experience of the promoters in the poultry business spanning over three decades. ICRA also notes the Group's integrated nature of operations with presence across various stages of the value chain, including manufacturing of poultry feed, breeder farming, hatchery, broiler farming (through contract farming) and chicken processing, which strengthen the competitive position of the Group. The ratings also draw comfort from the Group's financial risk profile, which is characterised by a moderate gearing and comfortable interest coverage.

The ratings, however, remain constrained by the Group's exposure to geographical concentration risk as it derived ~80% of its revenues from Tamil Nadu in FY2023 (86% in FY2022). The Group's margins are susceptible to volatility in broiler realisations and raw material prices. Due to the seasonal nature of demand / supply of poultry products in India, there is a volatility in broiler realisation. Moreover, the prices of key raw materials such as soya, day old chick (DOC) and maize depend on the agro-climatic conditions, international prices, and government policies in relation to the minimum selling prices (MSP), export-import policies etc. The Group's margins have been volatile over the past few years. The Group, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu). ICRA also notes the ongoing debt-funded capital expenditure of the Group and prepayment of term debt worth Rs.15.50 crore till December 2023, from their internal accruals. Execution of the capex within the budgeted cost and estimated timeframe, and timely ramp-up of operations will remain key rating sensitivities.

The Stable outlook on the [ICRA]BBB- rating reflects ICRA's expectations that SG will likely sustain its operating metrics with a healthy revenue growth. Further, the outlook underlines ICRA's expectation that the group's incremental capex, to further expand the capacity will be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating.

Key rating drivers and their description

Credit strengths

Established operational track record of the company and long experience of the promoters in the poultry business – The promoters have been involved in the poultry business for more than three decades. This has aided the Swami Group to expand its scale of operations over the years.

Integrated nature of operations – The Group has integrated nature of operations with its presence across various stages of the poultry value chain, including manufacturing of poultry feed, breeder farming, hatchery, broiler farming (through contract farming) and chicken processing. The main raw material required in poultry farms is poultry feed, which accounts for the major cost, with others being the cost of DOC, medicines etc. The Group's entire poultry feed requirement is currently met internally, enabling it to have a better control on the quality, availability, and cost of the feed. Further, the Group's presence in chicken processing provides the benefits of forward integration.

Financial risk profile characterised by moderate gearing and comfortable interest coverage ratio – The Group's overall debt has increased to Rs. 175.8 crore as on March 31, 2023 from Rs. 115.6 crore as on March 31, 2022 owing to various debt-funded capex activities undertaken as well as an increase in the working capital borrowings to fund its revenue growth. Thus, its gearing deteriorated to 1.5 times as on March 31, 2023 from 1.1 times as on March 31, 2022. The gearing for the Group is expected to remain largely flat in the near term though the term loans are expected to be utlised /availed to fund the ongoing capex. The DSCR of the Group deteriorated to 2.4 times as on March 31, 2023 from 3.8 times as on March 31, 2022 with increase in term debt repayments and remained within comfortable levels. However, the same is expected to deteriorate further in FY2024, with prepayment of loan worth Rs. 15.50 crore till December 2023, in addition to the scheduled debt repayments. The interest coverage stood at a comfortable level of 3.7 times and the same is expected to improve, going forward, with the likely improvement in the operating margin from chicken processing operations.

Credit challenges

Exposed to geographical concentration risk – The Group derived ~80% of its FY2023 sales from Tamil Nadu (86% in FY2022). In H1 FY2024, major part of broiler sales was made in Tamil Nadu and for processed chicken, the major portion of the sales was made in South India (Karnataka, Tamil Nadu and Kerla). The same is expected to be the Group's key market, going forward as well. This exposes the Group to high geographical concentration risk.

Margins susceptible to broiler realisations and raw material price fluctuations – The prices of key raw materials (maize, soya and DOC) remain volatile on the back of fluctuations in domestic production owing to the 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 raw material 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. ICRA notes that the Group's margins have been volatile in the past with the OPM in the range of 2.1% to 6.0% between FY2019 and FY2023.

Exposed to inherent industry risk of disease outbreak – The Group, like other entities in the poultry and related businesses, is exposed to the inherent industry risk of disease outbreaks (bird flu). However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent.

Risk of time and cost overrun in the current ongoing capex – The Group has two ongoing capex projects, involving setting up of a feed mill unit and a hatchery. The projects are likely to cost around ~Rs. 67 crore and the same are expected to be funded by term loans of Rs. 48 crore and the remaining through internal accruals. ICRA notes that around Rs. 45 crore of the overall budgeted costs have been incurred already. The projects are scheduled for commissioning by the end of March 2024. Execution of the capex within the budgeted cost and estimated timeframe and timely ramp-up of operations will remain critical from the credit perspective.

Liquidity position: Adequate

The Group's liquidity is expected to remain adequate. It generated fund flow from operations worth Rs. 19.1 crore in FY2023. However, the cash flow from operations stood negative at Rs. 32.2 crore owing to higher working capital requirements to fund the revenue growth and due to an increase in the working capital intensity of operations. The utilization of working capital limits stood at around 75% on an average in the past 12 months ended in December 2023, leaving the Group with a comfortable buffer. The Group is expected to incur capex of ~Rs. 67 crore in FY2024. However, the term loans availed by the Group are expected to support its liquidity. The liquidity of the Group is also supported by unsecured loans from the promotors worth Rs. 38 crore.

Rating sensitivities

Positive factors – ICRA could upgrade the Group's ratings if there is a sustained improvement in the liquidity position, backed by an improvement in earnings.

Negative factors – Pressure on the Group's ratings may arise if a significant deterioration in earnings or any large unanticipated debt-funded capital expenditure plan exerts pressure on its liquidity or impacts the coverage metrics. Specific metrics that could lead to ratings downgrade include an interest coverage of less than 2.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology]
Parent/Group support	NA
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SFPL and SCPL, as enlisted in Annexure-II

About the company

Swami Feeds Private Limited (SFPL), based out of Tamil Nadu, is an integrated poultry players in India. The company started operations in 1997 and has expanded and diversified over the years. It is present across various avenues of poultry and related businesses, viz. breeder farming, hatching, broiler farming through contract farmers, and poultry feed manufacturing (almost entirely captively consumed). It has eleven breeder farms of which nine are in Hosur and two in Mulanur. It has two hatcheries, one in Hosur and the other one in Mulanur. Its two feed mills are situated near the head office in Mulanur, Tamil Nadu. SFPL currently holds a 17.7% stake in SCPL.

Swami Chickens Private Limited (SCPL) was incorporated in 2010 although the operations started only in March 2022. It is involved in processing and marketing of chicken meat. It has a processing capacity of 3,000 birds per hour. It markets chicken under the brand, Swa Fresh. The major portion of its sales is derived from the south Indian states. SCPL's entire live bird requirement is met from SFPL. SCPL currently holds a 9.2% stake in SFPL, reduced from 17% in FY2023.

Key financial indicators

Consolidated	FY2022 (Audited)	FY2023 (Audited)
Operating income (Rs. crore)	733.6	893.2
PAT (Rs. crore)	6.2	11.4
OPBDIT/OI	2.1%	3.7%
PAT/OI	0.8%	1.3%
Total outside liabilities/Tangible net worth (times)	1.4	1.8
Total debt/OPBDIT (times)	7.5	5.4
Interest coverage (times)	4.0	3.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Standalone	FY2022 (Audited)	FY2023 (Audited)
Operating income (Rs. crore)	732.6	873.9
PAT (Rs. crore)	7.0	10.3
OPBDIT/OI	2.3%	2.7%
PAT/OI	1.0%	1.2%
Total outside liabilities/Tangible net worth (times)	1.1	1.5
Total debt/OPBDIT (times)	3.5	4.8
Interest coverage (times)	7.2	3.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Brickwork Ratings, in its rationale published on Swami Feeds Pvt. Ltd. on September 28,2023, revised the ratings to BWR BB and migrated to 'Issuer Not Cooperating' category based on best available information.

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 of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 15, 2024	Jun 05, 2023	--	--	--
1	Cash Credit	Long-term	100.00	--	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	--	--	--
2	Term Loans	Long-term	48.20	34.5	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	--	--	--
3	Unallocated Limits	Short-term	1.80	--	**[ICRA]A3**	**[ICRA]A3**	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
Term Loans	Simple
Unallocated Limits	NA

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
--	Cash Credit	NA	NA	NA	100.0	[ICRA]BBB- (Stable)
--	Term Loans- 1	FY2022	NA	FY2030	24.7	[ICRA]BBB- (Stable)
--	Term Loans -2	FY2024	NA	FY2031	23.5	[ICRA]BBB- (Stable)
--	Unallocated Limits	NA	NA	NA	1.8	[ICRA]A3

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Swami Chickens Private Limited	-	Full Consolidation

Source: *Company*

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About ICRA Limited:

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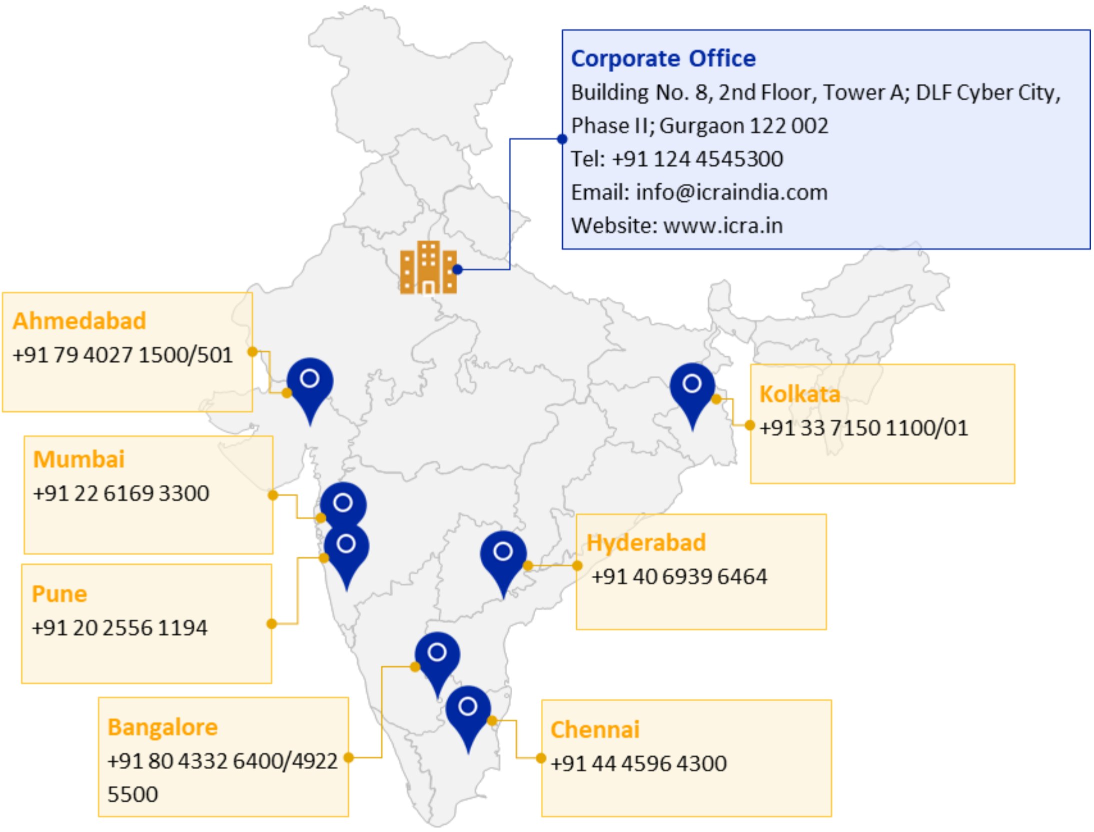

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