May 31, 2024

Sneha Gold Proteins Private Limited: Placed on Rating Watch with Positive Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	6.45	6.45	[ICRA]BBB-; Placed on Rating Watch with Positive Implications
Long Term- Fund based- Term Loan	236.00	236.00	[ICRA]BBB-; Placed on Rating Watch with Positive Implications
Total	**242.45**	**242.45**	

**Instrument details are provided in Annexure-I*

Rationale

The rating outstanding on Sneha Gold Proteins Private Limited (SGPPL) has been placed on Watch with Positive Implications after the rating of its parent, Sneha Farms Private Limited (SFPL), has been placed on Watch with Positive Implications on the back of the expected improvement in SFPL's credit profile with the proposed equity infusion. SFPL, which is involved in breeder farming, hatchery, broiler farming, layer farming, chicken processing, and other such operations, has entered into a definitive agreement with Mitsui & Co. (Mitsui), a Japanese food chain company, in March 2024, wherein Mitsui will acquire a 25.01% stake in SFPL (the flagship entity of the Sneha group) through primary and secondary issue of shares. A sizeable equity is expected to be infused in SFPL through primary issue which would be utilised by the company to reduce its debt levels, leading to improved debt protection metrics. Prior to Mitusi's equity investment, SG will be demerging a part of its real estate assets into a different entity. Moreover, regulatory approvals would be required for the investment. Hence, timeliness of the equity infusion would be monitored.

SGPPL's rating considers the strong operational and financial support from SFPL, the flagship entity of the Sneha Group and the market leader in the broiler segment in Telangana and Andhra Pradesh with an established operational track record of over three decades. Moreover, SGPPL is strategically important to the Sneha Group as it is setting up a soya solvent extraction plant (SEP) and a soya oil refinery with an installed capacity of 800 tonnes per day (TPD) and 150 TPD, respectively. Soya de-oiled cake (DOC), a key raw material for poultry feed, also helps in SFPL's backward integration. The plant will be set up in Nanded, Maharashtra, in proximity to sources of raw materials, which will ensure availability and reduce the freight costs.

The rating, however, is constrained by the execution and stabilisation risks, as timely completion of the project within the budgeted cost and the successful ramp-up of operations remain crucial. The project cost is estimated at ~Rs. 312.0 crore, which would be funded through Rs. 236.0-crore term debt and Rs. 76.0-crore equity and unsecured loans from SFPL and promoters. As of March 2024, the company has incurred project cost of ~Rs. 102.0 crore, funded through a mix of term debt and equity from SFPL. The rating further considers thin margins inherent to the soya extraction business. Moreover, agro-climatic conditions impact the availability and prices of raw materials.

Key rating drivers and their description

Credit strengths

Experienced management in the poultry industry and established brand name of Sneha Group – SGPPL is a 100% subsidiary of SFPL, which is the market leader in the broiler segment in Telangana and Andhra Pradesh with an established operational track record of over three decades. SGPPL's day-to-day operations will be monitored by the management and the promoters of SFPL, who have over 40 years of experience in the poultry industry.

Support from SFPL – SGPPL, a 100% subsidiary of SFPL, is also a strategically important entity to the parent company as it would supply a significant part of the latter's requirement of soya DOC (a key raw material for producing poultry feed) after the commencement of operations and would also aid in SFPL's backward integration for the poultry business. SFPL has already infused equity and unsecured loans to fund a part of the project cost and is expected to continue its support for SGPPL, as and when required.

Favourable location of the manufacturing unit would ensure raw material availability – SGPPL's manufacturing facility is in proximity to raw material sources, which will ensure availability and provide a cost advantage to the company, especially in terms of lower freight costs.

Credit challenges

Exposed to execution and stabilisation risks given the construction/ setting-up phase of the project – The company is setting up a soya SEP and soya refinery in Nanded, Maharashtra at an estimated project cost of ~Rs. 312.0 crore, which would be funded through Rs. 236.0-crore term debt and Rs. 76.0-crore equity and unsecured loans from SFPL. The company incurred ~Rs. 102.0 crore till March 2024, funded through a mix of term debt and equity from SFPL. Timely completion of the project without cost overrun and successful expansion of operations would be closely monitored.

Thin margins inherent in soya solvent extraction; exposure to agro-climatic risks – SGPPL's margins are expected to remain thin owing to limited value addition and the highly fragmented nature of the solvent extraction industry. Raw material availability and prices remain volatile due to fluctuation in domestic production owing to agro-climatic conditions, international prices, government regulations, and demand from the animal husbandry sector, which is susceptible to seasonality.

Liquidity position: Stretched

The company's liquidity position is stretched as it is expected to incur capex of Rs. 200.0-220.0 in the next 12 months. SFPL has infused partial equity, and the rest is expected to come, as and when required. The company has tied up debt to fund the project. Timely completion of the project without any time or cost overrun remains crucial.

Rating sensitivities

Positive factors – The rating Watch could be resolved upon resolution of Watch on its parent SFPL's rating. ICRA could also upgrade SGPPL's rating if the company successfully completes the project within the budgeted time and cost with successful ramp-up in scale and profitability. Also, the rating could be upgraded if there is an improvement in the credit profile of the parent.

Negative factors – Pressure on the rating could arise if any delay in project execution or any cost overrun significantly impacts its liquidity, and if there is any delay in achieving the financial closure. Any deterioration in the parent's credit profile or weakening of linkages with the parent could also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating Methodology –Edible Oil](#)
Parent/Group support	Implicit support from the parent – Sneha Farms Pvt. Ltd.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SGPPL, along with implicit support from SFPL.

About the company

In 2022, Sneha Gold Proteins Private Limited was incorporated as a 100% subsidiary of SFPL for manufacturing soya oil through a soya SEP and a soya refinery with an installed production capacity of 800 TPD and 150 TPD, respectively. In FY2024, the Sneha Group has acquired Singh Poultry Private Limited, which has an installed capacity for 1 lakh breeder birds, for a consideration of Rs. 50.0 crore (funded through a mix of term debt and internal accruals)

Key financial indicators: Not applicable since SGPPL is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
					May 31, 2024	Jan 22, 2024	Oct 27, 2023	-	-
1	**Unallocated**	Long Term	6.45		**[ICRA]BBB-; Rating Watch with Positive Implications**	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	-	-
2	**Fund based– Term Loans**	Long Term	236.00	121.40*	**[ICRA]BBB-; Rating Watch with Positive Implications**	**[ICRA]BBB- (Stable)**	-	-	-

***Company is yet to draw full amount of term loan from the Canara Bank**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Unallocated	Not Applicable
Long Term- Fund based- Term Loan	Simple

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
NA	**Long Term - Unallocated**	NA	NA	NA	6.45	[ICRA]BBB-; Rating Watch with Positive Implications
NA	**Long Term- Fund based- Term Loan**	FY2024	NA	FY2030	236.00	[ICRA]BBB-; Rating Watch with Positive Implications

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

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

Nithya Debbadi
+91 40 6939 6416
nithya.debbadi@icraindia.com

Etikala Raviteja
+91 40 6939 6418
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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ICRA Limited

Registered Office

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

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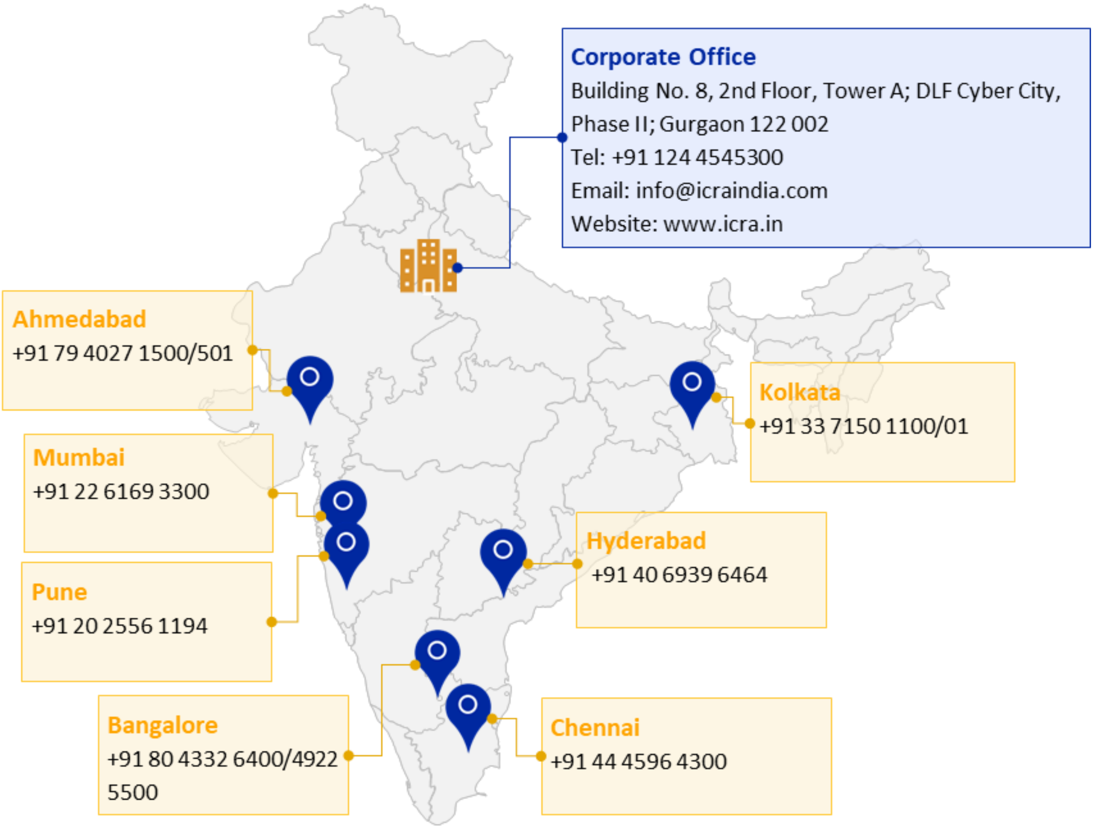

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