May 31, 2024

Sneha Foods and Feeds Private Limited: Placed on Rating Watch with Positive Implication

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund based- Cash Credit	100.00	100.00	[ICRA]A+; Placed on Rating Watch with Positive Implications
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the rating, ICRA has taken a 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. Together they are referred to as the Sneha Group (SG).

The rating outstanding on Sneha Farms Private Limited (SFPL) has been placed on Watch with Positive Implications given the expected improvement in the company's credit profile owing to the proposed equity infusion. The company entered into a definitive agreement with Mitsui & Co. (Mitsui), a Japanese-based food chain company in March 2024. As per the agreement, 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.

The equity infused would be primarily used to reduce long-term and working capital debt, with a portion allocated to fund the capex, thereby improving the debt protection metrics. Moreover, SG is expected to leverage Mitsui's global presence in the food retail segment to improve its export prospects. SG will be demerging a part of real estate assets into a different entity before Mitusi's equity investment. Moreover, regulatory approvals would be required for the investment. Hence, timeliness of the equity infusion would be monitored.

The rating factors in the market leadership position of SG in Telangana and Andhra Pradesh and the Group's established track record of operations over three decades. ICRA also notes the Group's integrated nature of operations with presence across 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, which strengthen the Group's competitive position. The Group benefits significantly from forward integration initiatives, with a sizeable proportion of its broiler sales consumed through its own channels, including its processing plant, retail shops and a dealer network of more than 2,500 strong franchisees. Access to alternative routes of sale improves SG's bargaining power with its traders.

SG recorded healthy revenue growth at a CAGR of 12.6% over the past four years until FY2024. The entity reported revenues of Rs. 5,592.8 crore in FY2024, annualised growth of 10.6% on the back of healthy demand. Its operating margins declined to ~8% in FY2024 from ~9% in FY2023 owing to lower realisations in H2 FY2024. ICRA expects the company to record healthy revenue growth of 8-12% in FY2025, driven by higher realisations, increased volumes in the live bird segment and robust growth in the processed meat segment. Margins are expected to remain at 8-10% in FY2025.

The entity's capital structure is comfortable, with a gearing of 0.8 times as on March 31, 2024, against 0.6 times as on March 31, 2023. The debt coverage metrics also remained healthy with DSCR of 2.1 times and total debt/OPBIDTA of 3.0 times in FY2024. The debt repayment in Q3 FY2025/Q4 FY2025, following the equity infusion by Mitsui, is expected to reduce the term debt to an extent of Rs. 250.0 crore, further improving the debt coverage indicators going forward.

The rating is, however, constrained by the volatility of margins inherent to the poultry sector. SG's earnings are susceptible to highly volatile feed prices, which depend on agro-climatic conditions (with maize and soya being the main raw materials for poultry feed manufacturing), international prices and Government interventions, in terms of setting the minimum selling prices (MSPs) and export-import policies. Moreover, its margins are susceptible to the volatility in broiler realisations due to the seasonal demand–supply nature 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 and the practice of stocking up raw materials during harvest season resulted in lower volatility and better margins for SG than players focused on broilers. Moreover, the ongoing upgradation of some of its farms to environmentally controlled (EC) farms would reduce production costs.

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 further exacerbated by the concentration of revenues from 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 notes the significant debt-funded capex of over Rs. 500.0 crore planned by the Group over the next 12 months. Executing this capex within the budgeted cost and timeframe, along with the timely ramp-up of operations, will remain critical from a credit perspective.

Key rating drivers and their description

Credit strengths

Strong brand position in Telangana and Andhra Pradesh market; established operational track record in poultry business - SG has an established track record of operations of over three decades. In terms of geographical revenue mix, it has a presence in just three states, Karnataka, Andhra Pradesh and Telangana. It enjoys a market leadership position in Andhra Pradesh and Telangana, with a healthy market share in Telangana and is a prominent retail brand in the region. Its dominant market share in these areas enables it to charge a premium on broiler prices, protecting margins to an extent. This market domination allows the Group to monitor its farms more closely, preventing pilferage and reducing production costs. Further, logistics costs are controlled as feed mills and broiler farms are largely located close to the points of sale.

Well-integrated presence across value chain and significant forward integration help in better pricing - The Group has an integrated nature of operations across various stages of the poultry value chain, including manufacturing of animal feed, breeder farming, hatchery, broiler farming, layer farming, chicken processing, soya and rice bran oil extraction and refining. Further, it derives significant benefits from forward integration initiatives, utilising a sizeable portion of its broiler production in its processing plant, own retail shops and its strong dealer network operated through a franchisee model. Access to alternative sales routes improves SG's bargaining power with its traders. These factors strengthen the Group's competitive position, as reflected by a marked improvement in the overall scale of operations over the years and a favourable cost structure.

Healthy financial profile; proposed equity infusion would lead to reduction in debt and improve leverage and coverage metrics – The company's operating margins have remained healthy and relatively less volatile than other players in the industry. However, SG's margins contracted to ~8% in FY2024 from ~9% in FY2023 on account of weak realisations in H2 FY2024. The Group's margins are expected to remain at ~8-10% in FY2025, supported by improved realisations and the benefits of operating leverage from increased scale. SG's capital structure remained healthy, with a gearing of 0.8 times as on March 31, 2024. Coverage metrics also remained robust with DSCR of 2.1 times and total debt/OPBIDTA of 3.0 times in FY2024. Despite significant capex plans in the near to medium term, the equity infusion from Mitsui is expected to help reduce the Group's debt levels and improve its capital structure and coverage metrics.

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. SG has solvent extraction facilities for manufacturing soya de-oiled cake from soya seeds. The prices of raw materials (maize and soya seeds) remain volatile due to fluctuations in domestic production caused by 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 movements in feed prices. Further, volatility in broiler realisations, due to the seasonal nature of the demand and supply of poultry products in India, impacts the profitability of all integrators. However, forward integration and stocking up of raw materials during harvesting season have aided SG in recording healthy operating margins even in periods of stress in the industry.

Inherent risk in poultry business; revenues concentrated in Telangana and Andhra Pradesh - 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 the concentration of revenues (over 80% of revenues) in Telangana and Andhra Pradesh. However, ICRA notes that the company has taken several measures, such as having breeder farms with a capacity not exceeding 30,000 birds to ensure that any disease outbreak at a farm is contained and impacts a minimum proportion of its overall capacity, to mitigate the risk to an extent.

Sizeable capex plans in the near term - SG is expected to incur a sizeable capex of over Rs. 500.0 crore in the next 12 months for multiple projects, including feed mills, a solar power plant, maize silos and broiler farms. It has incorporated a subsidiary company, SGPPL, to manufacture soya doc and soya oil through the construction of a soya solvent extraction plant (SEP) and soya refinery with installed production capacities of 800 TPD (tonnes per day) and 150 TPD, respectively. SGPL is being set up in Yavatmal, Maharashtra, to take advantage of the capex subsidy of up to 100%, which will be spread over 10 years, depending on the turnover. Commercialisation may take another 24 months from September 2023, after which revenues will be generated at a scale similar to SFFPL. As of March 2024, the company has incurred a cost of 100-110.0 crore for the project (out of the total project cost of over Rs. 310.0 crore), which was funded through ~Rs. 70 crore of term debt, ~Rs. 14 crore of equity from SFPL and the remaining through unsecured loans from SFPL. While the capex is expected to be funded through debt, equity infusion from Mitsui will be used to prepay a large portion of the long-term debt.

Liquidity position: Adequate

SG had cash balance of Rs. 62.8 crore as on March 31, 2024, and undrawn working capital lines of ~Rs. 50-100.0 crore. It is expected to generate retained cash flows of Rs. 250-300 crore for the next 12 months, against repayment obligations of Rs. 90-100.0 crore and capex obligations of over Rs. 500 crore, which will be funded through a mix of debt and equity.

Rating sensitivities

Positive factors – The rating Watch would be resolved upon completion of the transaction (equity infusion), which is expected to reduce debt and improve debt metrics. The rating could also be upgraded if the company demonstrates healthy revenue growth, improves its earnings profile and strengthens its liquidity profile. Specific credit metrics that may lead to a rating upgrade include TD/OPBITDA of less than 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings may arise from any sharp deterioration in revenue or earnings or a weakening of the liquidity position. Specific credit metrics that may lead to a rating downgrade include a weakening of the DSCR below 2.0 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 SFPL and SFFPL, given the close operational, financial and management linkages between the group entities. This apart, ICRA has also consolidated the financials of SGPPL and SPPL given the support extended by SFPL to these entities.

About the company

SFFPL is engaged in the sale of soya oil and soya DOC. Sneha Farms Private Limited (SFPL) holds an 8.3% stake in the entity. SFPL is a prominent player in the poultry industry with a dominant presence in Telangana and Andhra Pradesh. It is involved 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	FY2023	FY2024*
Operating income	5,057.1	5,592.8
PAT	257.8	197.0
OPBDIT/OI	9.2%	7.9%
PAT/OI	5.1%	3.5%
Total outside liabilities/Tangible net worth (times)	0.9	1.0
Total debt/OPBDIT (times)	2.1	3.0
Interest coverage (times)	6.2	4.4

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *provisional financials*

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	Oct 27, 2023	-	-
1	Fund based–Cash Credit	Long Term	100.00	-	[ICRA]A+; Rating Watch with Positive Implications	[ICRA]A+ (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term- Fund based- Cash Credit	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- Fund based- Cash Credit	NA	NA	NA	100.00	[ICRA]A+; 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

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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.

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