September 27, 2024

Swami Chickens Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Cash Credit	5.40	8.40	[ICRA]BBB-(Stable); reaffirmed
Long-term - Term Loan	13.10	10.10	[ICRA]BBB-(Stable); reaffirmed
Total	**18.50**	**18.50**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for the Swami Group considers the expected improvement in the operational and financial performance over the medium term on the back of its established track record and long experience of the promoters in the poultry business, spanning over three decades. The ratings also consider the Swami 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 strengthens its competitive position in the poultry industry.

The operating income of the Swami Group rose by ~13% on a YoY basis to Rs. 1,012.9 crore in FY2024 (provisional), with an increase in volumes of processed chicken sold by SCPL. Further, with moderation in raw material prices, its operating margins improved by 260 bps to 6.3% in FY2024. The ratings further derive comfort from the Swami Group's financial risk profile, which is characterised by moderate gearing and comfortable interest coverage. With the increase in the operating margins, the interest coverage ratio and TD/operating profit improved to 5.4 times and 3.4 times, respectively in FY2024, compared to 3.7 times and 5.4 times, respectively in FY2023. Although some moderation in the coverage indicators is expected over the near-to-medium term (a fresh debt of ~Rs. 38 crore was availed in FY2024, and term debt would be availed in FY2025 towards the proposed capex), it is expected to stay within healthy levels.

The ratings, however, remain constrained by the Swami Group's exposure to high geographical concentration risk as it derived ~92% of its revenues from Tamil Nadu in FY2024. The ratings also remain constrained by the large debt-funded capital expenditure of ~Rs. 60 crore incurred in FY2024, coupled with loan prepayments of Rs. 14.2 crore and a reduction in loan from promoters by ~Rs. 9.7 crore as on March 31, 2024. Consequently, its debt service coverage ratio moderated to 1.1 times in FY2024 from 2.4 times in FY2023. The Group's DSCR is expected to improve over the medium term with the likely moderation in repayment obligations on term loans. The ratings also remain constrained as the Swami Group's margins are susceptible to volatility in broiler realisations and raw material prices. There is volatility in broiler realisation owing to the seasonal nature of demand and supply of poultry products in India. Moreover, the prices of key raw materials such as soya de-oiled cakes, 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 norms, etc. resulting in volatility in the Swami Group's margins over the past few fiscals. Swami Group, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreak (bird flu).

The Stable outlook on the long-term rating reflects ICRA's expectation that an improvement in revenues and operating metrics of the Swami Group is likely to sustain. Further, the outlook underlines ICRA's expectation that the Group's incremental capex, if any, will be funded in a manner that it is able to durably maintain its debt protection metrics commensurate with the existing ratings.

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 Swami Group has expanded its operations over the years, aided by the promotors' involvement in the poultry business for more than three decades.

Integrated nature of operations – The Swami Group operates across various stages of the poultry value chain, including manufacturing of poultry feed, breeder farming, hatchery, broiler farming (through contract farming), and chicken processing, enabling them to have an integrated nature of operations. 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 Swami Group meets its entire poultry feed requirement internally, which allows it to have better control over quality, availability, and cost of feed. Further, the Swami Group's presence in chicken processing provides the benefits of forward integration. SFPL has 11 breeding farms with a capacity to raise 6 lakh birds per year. Additionally, it has three feed mills, three hatcheries, and undertakes broiler rearing through contract farmers spread across Tamil Nadu and Andhra Pradesh. SCPL has a capacity of processing 1,200 MT of finished chilled and frozen chicken per month.

Credit challenges

Large debt-funded capital expenditure coupled with loan prepayments impact the liquidity profile and debt service coverage indicators – The Swami Group undertook capital expenditure of ~Rs. 70 crore spread over FY2023 and FY2024 to set up a new hatchery and feed mill, which commenced operations in March 2024. This capex was funded through term loans of Rs. 43.5 crore and internal accruals. Further, in FY2024, in addition to the existing repayment obligation of Rs. 11.8 crore, the Group had prepaid term loans worth Rs. 14.2 crore and repaid the loans availed from promoters to an extent worth Rs. 9.7 crore. This affected the liquidity profile of the entity, and its debt service coverage indicators weakened to 1.1 times in FY2024 from 2.4 times in FY2023. However, with expected moderation in repayment obligations on term loans, the Group's DSCR is expected to improve, going forward.

Exposed to geographical concentration risk – The Swami Group derived ~92% of its operating income from Tamil Nadu in FY2024. The major portion of broiler chicken sales is derived from Tamil Nadu, and income from the sale of processed chicken is received from Karnataka, Tamil Nadu and Kerala. Going forward, South India is expected to be the key market for the Swami Group, exposing its operations to high geographical concentration risk.

Margins susceptible to broiler realisations and raw material price fluctuations; exposed to inherent industry risk of disease outbreak – In the poultry industry, the prices of key raw materials such as maize, soya de-oiled cakes, and DOC remain volatile on the back of 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. The Swami Group's profitability, like other entities in the poultry sector, 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 Swami Group's margins have been volatile in the past and its OPM stood in the range of 2.0% to 6.5% between FY2019 and FY2024.

The Swami Group, like other entities in the poultry industry, is exposed to the inherent industry risk of disease outbreak (bird flu). However, ICRA considers various bio-security measures adopted by the Swami Group over the years, that have helped in mitigating the risk to an extent.

Liquidity position: Adequate

The liquidity position of the Swami Group is expected to remain adequate, supported by healthy cash accruals, adequate buffer of ~29%, with an average utilisation of ~71% on the sanctioned lines of Rs. 145.0 crore during the 12-month period ending in July 2024. Further the entity had a cash buffer of ~Rs. 9.2 crore as on March 31, 2024. Against these sources of funds, the entity has a term loan repayment obligation of ~Rs. 28 crore in FY2025. Further, SFPL is expected to incur a capex of ~Rs. 25 crore in FY2025 (including Rs. 24 crore towards windmill installation), to be funded through term loan of Rs. 15.0 crore and the balance from internal accruals. The liquidity of the Swami Group is also supported by unsecured loans from the promotors worth Rs. 18.0 crore as on September 10, 2024. Any further reduction in unsecured loans from promoters would remain a key monitorable.

Rating sensitivities

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

Negative factors – Pressure on the Group's ratings may arise in case of a significant deterioration in earnings or any large unanticipated debt-funded capital expenditure that exerts pressure on its liquidity or impacts its 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	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of SCPL and SFPL as enlisted in Annexure-II

About the company

SCPL was incorporated in 2010 and commenced operations from March 2022. It is involved in the processing and marketing of chicken meat. It has a capacity of 3,000 birds per hour. It markets chicken under the brand, Swa Fresh. It does not have presence in value-added products and 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.

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.

Key financial indicators (audited)

Consolidated	FY2023	FY2024*
Operating income	893.2	1012.9
PAT	11.4	28.2
OPBDIT/OI	3.7%	6.3%
PAT/OI	1.3%	2.8%
Total outside liabilities/Tangible net worth (times)	1.8	1.8
Total debt/OPBDIT (times)	5.4	3.4
Interest coverage (times)	3.7	5.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Standalone - SCPL	FY2023	FY2024*
Operating income (Rs. crore)	128.2	207.9
PAT (Rs. crore)	1.1	4.3
OPBDIT/OI	7.1%	5.1%
PAT/OI	0.8%	2.1%
Total outside liabilities/Tangible net worth (times)	3.2	2.3
Total debt/OPBDIT (times)	6.9	4.6
Interest coverage (times)	3.6	6.7

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

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

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)	September 27, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Cash Credit	Long-term	8.40	[ICRA]BBB-(Stable)	June 05, 2023	[ICRA]BBB-(Stable)	-	-	-	-
Term Loans	Long-term	10.10	[ICRA]BBB-(Stable)	June 05, 2023	[ICRA]BBB-(Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash Credit	Simple
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
--	Cash Credit	NA	NA	NA	8.40	[ICRA]BBB- (Stable)
--	Term Loans	Q3 FY2020	NA	Q2 FY2028	10.10	[ICRA]BBB- (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Swami Feeds Private Limited	9.2%	Full Consolidation

Source: Company

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About ICRA Limited:

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