

October 28, 2024

Sandhya Layer Farm: [ICRA]BB-(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund based – Cash Credit	25.60	[ICRA]BB- (Stable); assigned
Long-term – Fund based – Term Loan	9.45	[ICRA]BB- (Stable); assigned
Long-term – Unallocated	4.95	[ICRA]BB- (Stable); assigned
Total	40.00	

*Instrument details are provided in Annexure-I

Rationale

The rating assigned to the bank lines of Sandhya Layer Farm (SLF) considers the extensive experience of the promoters in the poultry farming business spanning over 30 years, presence of an in-house feed production facility and favourable demand prospects for the layer segment of the industry because of increasing acceptance of eggs as a daily meal component. The firm commenced operations in November 2022 and has 4.0 lakh layer birds. SLF has a small scale of operations at present as it is operating in the fragment poultry business. The firm is expected to clock a 30-35% revenue growth in FY2025 on the back of an increase in egg-laying birds. The rating is constrained by the firm's relatively subdued financial profile, as indicated by its leveraged capital structure and stretched coverage metrics with total debt/OPBIDTA of 6.4 times and DSCR of 1.0 times in FY2024, given the nascent stage of operations. The rating also considers vulnerability of its earnings to fluctuations in raw material prices, mainly maize and soya, volatility in table egg prices, risks arising from disease outbreaks, along with the cyclical and the fragmented nature of the poultry industry. The ratings factor in the risks involved with the partnership nature of the firm, including capital withdrawal risk.

The Stable outlook on the rating reflects ICRA's opinion that SLF will benefit from the extensive experience of its promoters in the poultry farming business and the industry's favourable demand prospects.

Key rating drivers and their description

Credit strengths

Significant experience of the promoter in the poultry industry – The partners have established presence with over three decades of experience in the poultry industry, resulting in established relationship with customers and suppliers.

Favourable demand prospects for the layers segment of the poultry industry –Demand for eggs, with enhanced nutritional awareness, is expected to increase with a rise in acceptance of eggs as a daily meal component, thus auguring well for the firm.

Credit challenges

Small scale of operations and weak financial profile – The scale of operations is small with revenues of Rs. 36.1 crore in FY2024, limiting its financial flexibility. It has clocked revenues of Rs. 19.1 crore in 5M FY2025 and is expected to record a healthy growth in revenues in FY2025 with increase in egg-laying birds, albeit on a small base. However, the firm's capital structure remains leveraged with TD/TNW of 3.3 times as on March 31, 2024, owing to low accruals. Moreover, its coverage metrics are stretched with total debt/OPBIDTA of 6.4 times and DSCR of 1.0 times in FY2024. This apart, given the high inventory holding, the company's liquidity position is stretched.

Vulnerability to rise in feed prices and cyclicalities associated with the Indian poultry industry – Maize and soya, which account for ~70% of raw material consumption, form the major raw material for feed. Thus, fluctuation in price of these agro commodities would impact the firm's profitability. The firm is also affected by the cyclicalities associated with the Indian poultry industry and the resultant volatility in prices of eggs.

Exposed to the risk of disease outbreak – The firm, like other entities in the poultry, remains exposed to the inherent industry risk of disease outbreak (bird flu or avian influenza).

Risks inherent to the partnership nature of the firm – SLF is exposed to the risks associated with partnership firms including limited ability to raise capital and withdrawal of capital by the partners, which could adversely impact its capital structure.

Liquidity position: Stretched

The firm's liquidity position is stretched with nil buffer in the working capital limits as on March 31, 2024, and low free cash against the repayment obligations of Rs. 1.8-2.2 crore over the next 12 months. The firm's retained cash flows are also expected to remain stretched. However, the partners are expected to support the firm in meeting its debt servicing obligations and working capital requirements.

Rating sensitivities

Positive factors – ICRA could upgrade SLF's rating if a healthy growth in revenues and earnings leads to an improvement in the liquidity position and debt coverage metrics. Specific credit metrics that could lead to a rating upgrade include DSCR of over 1.1 times on a sustained basis.

Negative factors – Pressure on the rating could arise if any material decline in revenues or margins impacts the firm's cash flows or debt metrics on a sustained basis. Deterioration in the working capital cycle, impacting the firm's liquidity position, could also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Sandhya Layer Farm was established in January 2022 by Mr. Ayyagari Narsimulu and his family to set up a layer poultry farm. It commenced its operations in November 2022 with a capacity of 86,000 birds and expanded the total capacity to 4.0 lakh birds gradually. Its farm is located in Surampally (Village), Siddipet district, Telangana. It sells table eggs of Vencobb, Hyline and Skylark breed.

Key financial indicators (audited)

SLF Standalone	5M FY2023	FY2024
Operating income	5.0	36.1
PAT	-0.1	0.2
OPBDIT/OI	14.2%	11.9%
PAT/OI	-1.0%	0.4%
Total outside liabilities/Tangible net worth (times)	4.1	3.9
Total debt/OPBDIT (times)	23.9	6.4

Interest coverage (times)	0.9	2.0
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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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current year (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	Oct 28, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Long-term – Fund based – Cash Credit	Long-term	25.60	[ICRA]BB-(Stable)	-	-	-	-	-	-
Long-term – Fund based – Term Loan	Long-term	9.45	[ICRA]BB-(Stable)	-	-	-	-	-	-
Long-term - Unallocated	Long-term	4.95	[ICRA]BB-(Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term-fund-based – Term Loan	Simple
Long-term-fund-based – Cash Credit	Simple
Long-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
NA	Long-term – Fund based – Cash Credit	NA	NA	NA	25.60	[ICRA]BB-(Stable)
NA	Long-term – Fund based – Term Loan	October 2022	NA	March 2029	9.45	[ICRA]BB-(Stable)
NA	Long-term - Unallocated	NA	NA	NA	4.95	[ICRA]BB-(Stable)

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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