

November 06, 2023

## Suguna Holdings Private Limited: Ratings reaffirmed; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund based - Cash credit	55.00	55.00	[ICRA]BBB+ reaffirmed; outlook revised to Stable from Negative
Short-term - Interchangeable	(55.00)	(55.00)	[ICRA]A2 reaffirmed
Short-term fund based facilities	161.00	121.00	[ICRA]A2 reaffirmed
Short-term non-fund based facilities	24.40	24.40	[ICRA]A2 reaffirmed
Long-term/ Short -term – Unallocated	99.60	139.60	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook revised to Stable from Negative
<b>Total</b>	<b>340.00</b>	<b>340.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

Suguna Holdings Private Limited (SHPL)'s credit profile is largely driven by the performance of Suguna Foods Private Limited (SFPL), which contributes ~95% of group revenues and over 90% of group debt. The revision in outlook on SHPL's long-term rating, therefore, considers the expected improved performance of SFPL marked by rebound in operating margins to 3-5% in FY2024, against operational losses incurred in FY2023, thus resulting in an improvement in margins and debt protection metrics at the consolidated level. In FY2023, SHPL incurred operating losses owing to significant costs (Rs. 375 crore) incurred by the flagship entity of the Group, SFPL, towards development of its pureline breed, Sunbro, sharp decline in realisations in Q4 FY2023 and high raw material costs. However, improvement in SFPL's operating metrics such as FCR with stabilisation of the breed, absence of any expenses towards breed development, improved realisations, and stable raw material would aid improvement in SFPL's margins in FY2024. Improved performance of SFPL, along with healthy revenue and earnings profile of other subsidiaries are expected to result in ~8-12% revenue growth and 4-7% operating margins (0.4% in FY2023) for SHPL in FY2024. SHPL is the holding company of the Suguna Group and acts as the capital allocator for the Group companies and is also involved in the business of commodity trading. The ratings remain supported by the Group's strong financial flexibility as demonstrated by its ability to raise debt from internationally reputed financial institutions for financing the capex requirements of its investee companies. The ratings also consider SHPL's established presence in India with its operations spread across 18 states and well-integrated operations with its presence across the value chain of the broiler industry from soya bean processing till processed food sales.

ICRA also takes note that SHPL has signed a definitive agreement to sell majority stake in its 100% subsidiary, Globion India Private Limited, to VIRBAC in an all-cash consideration. The sale consideration/expected deployment of funds are yet to be ascertained. ICRA will monitor the developments in this regard.

The ratings continue to be constrained by the vulnerability of earnings to the inherent cyclicity in the poultry industry, wherein disease outbreaks, climatic conditions or cost inflation can adversely impact revenues and margins. Moreover, SFPL's revenues are concentrated on the live bird segment vis-à-vis its peers, a segment where margins have been volatile. However, ICRA notes that other subsidiaries of SHPL which are engaged in vaccine manufacturing and pre-mixes for poultry feed had been generating healthy margins, supporting the Group's overall cash flows.

## Key rating drivers and their description

### Credit strengths

**Significant experience of promoter/management team and established brand name** – The Suguna Group was promoted by Mr. B. Soundararajan and his brother Mr. G.B. Sundararajan, first-generation entrepreneurs, in 1984. The company has established a strong brand name, aided by a track record of over three and half decades. The Group has since expanded to become one of the largest integrated players in the Indian poultry industry, aided by its established relationship with 39,000 contract farmers from 8,000 villages.

**Strategic importance as the holding entity of Suguna Group** - SHPL is the holding company of the Suguna Group. SFPL is the flagship company of the Group, contributing ~95% of its operating income. SFPL is the largest integrated player in the poultry industry with significant market share in the broiler segment. SHPL holds stake in all Group companies with no cross-holdings in the Group. SHPL acts as a capital allocator, monitors the performance of subsidiaries, provides funding support to the weaker entities in the Group, identifies new business opportunities, prunes non-profitable businesses and protects the investments of the promoters.

**Strong financial flexibility** – The Group has demonstrated ability to raise funds from globally reputed financial institutions such as International Finance Corporation (IFC) and Asian Development Bank (ADB) at attractive rates for funding capex. This will ensure the availability of growth capital for scaling up the operations.

### Credit challenges

**Earnings of the flagship entity exposed to inherent cyclicality of poultry industry as witnessed in the past two years** – The financial performance of SHPL's flagship entity SFPL is exposed to the inherent cyclicality in the poultry industry. SFPL's margins were under pressure in the past two years (operating loss in FY2023 and low operating margin of 0.2% in FY2022) owing to high raw material costs, lower realisations in select months, moderate operating efficiency, and expenses & investments towards development of new strains of Sunbro. Increase in working capital requirements and cash losses incurred led to a significant increase in debt levels to ~Rs. 2,300 crore as on March 31, 2023 from ~Rs. 1,300 crore as on March 31, 2021. This in turn has led to weakening of coverage and capitalization metrics. However, ICRA understands from the management that the new strains of the breed have been delivering better operational parameters in the recent past, which in conjunction with healthy demand outlook and stable raw material costs, is expected to lead to improvement in financial metrics in FY2024.

**Significant revenue dependence on poultry exposes revenues to risks in industry along with relatively high concentration towards low-margin live-bird segment vis-a-vis peers** – SHPL's flagship entity, SFPL derives ~75-80% of its revenues from sale of live birds where the margins have historically been volatile. Margins in this segment could be impacted by disease outbreaks, unfavourable climatic conditions or volatile raw material costs. SFPL may not be able to pass on the increased costs to its customers in a time-bound manner because of commoditised nature of the product and competition. However, the management is focussing on improving revenue share from the processed chicken segment, where the margins are significantly higher, and from feed and soya, where the margins are relatively stable.

### Liquidity position: Adequate

Suguna Holdings Private Limited (SHPL) has a comfortable liquidity position. It had unencumbered mutual funds of Rs. 197 crore with free cash balance of Rs. 10 crore as on March 31, 2023. It also has inventory of over Rs. 124 crore as on March 31, 2023, which can be liquidated, if required. Further, on a consolidated level, it is expected to generate retained cash flows of over around Rs. 400 crore in FY2024. This is adequate to meet repayment obligations of over Rs. 135 crore and capex expectations of Rs. 100-120 crore.

## Rating sensitivities

**Positive factors** – The ratings could be upgraded if sustained improvement in demand and improved contribution margins lead to an increase in profitability and reduction in debt levels, on a sustained basis. A specific credit metric that could lead to an upgrade is interest coverage ratio of over 4.0 times, on a sustained basis.

**Negative factors** – Negative Pressure on SFPL’s rating could arise if earnings continue to remain low, impacted by demand, input costs, or lower operating efficiencies. Any deterioration in capitalisation or coverage metrics or elongation in working capital cycle on a sustained basis, or materially higher debt-funded capex impacting its debt metrics could also lead to a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Holding company methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company’s consolidated financial profile

## About the company

Incorporated in 2008, SHPL is the holding company of the Suguna Group, which is mainly concentrated in the poultry segment of the agri and food business. The Suguna Group was founded in 1984 by brothers Mr. B. Soundararajan and Mr. G. B. Sundararajan in a small backyard farm in Udumalpet (Tamil Nadu). Over the years, the Group has become one of the leading poultry integrators in India with its operations covering all facets of the poultry segment. The other business interests of the Group include animal healthcare, feed, premix, etc. The company acts as a capital allocator for the Suguna Group and its function includes monitoring the performance of subsidiaries, providing funding support to the weaker entities in the Group, identifying new business opportunities, pruning non-profitable businesses and protecting the investments of the promoters. SHPL shares are held by an independent trustee on behalf of a family private trust wherein the beneficiaries are both the promoters and their respective family members and future lineal descendants.

## Key financial indicators (audited)

SHPL (Consolidated)	FY2022	FY2023
Operating income	11,361.9	12,061.6
PAT	-46.6	-210.7
OPBDIT/OI (%)	1.4%	0.4%
PAT/OI (%)	-0.4%	-1.47
Total outside liabilities/Tangible net worth (times)	2.1	2.7
Total debt/OPBDIT (times)	14.1	59.3
Interest coverage (times)	1.2	0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amounts in Rs. crore

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for past three years

Instrument	Current rating (FY2024)					Chronology of rating history in last 3 years				
	Type	Amount rated (Rs. crore)	Amount outstanding as on Sept 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
				Nov 06, 2023	Apr 28, 2023	Mar 02, 2023	Jun 30, 2022	Jun 28, 2021	August 24, 2020	
1 Fund-Based	Long term – Cash Credit	55.0		[ICRA]BBB+(Stable)	[ICRA]BBB+(Negative)	-	-	-	-	
2	Short-term fund-based facilities – sub-limit	(55.0)		[ICRA]A2	[ICRA]A2	-	-	-	-	
3	Non - Fund-Based	24.4		[ICRA]A2	[ICRA]A2	=	-	-	-	
4	Fund-Based	Long term – Term Loan	-	-	-	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)		
5	Fund Based	Short term	121.0	-	[ICRA]A2	[ICRA]A2	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	
6	Unallocated	Long term/ Short term	139.6	-	[ICRA]BBB+(Stable) / [ICRA]A2	[ICRA]BBB+(Negative) / [ICRA]A2	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+(Stable)/ [ICRA]A2

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash Credit	Simple
Short - term – Non-Fund-based working capital	Very Simple
Short- Term – Fund Based – sub-limit	Very Simple
Short -term -Fund-based working capital	Very Simple
Long term/Short 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	-	-	-	55.0	[ICRA]BBB+(Stable)
NA	Short term fund based	-	-	-	121.0	[ICRA]A2
NA	Short term non - fund based	-	-	-	24.4	[ICRA]A2
NA	Short term fund based – sub-limit	-	-	-	(55.0)	[ICRA]A2
NA	Unallocated	-	-	-	139.6	[ICRA]BBB+(Stable)/[ICRA]A2

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
Suguna Foods Private Limited	99.7%	Full Consolidation
Aminovit Pvt Ltd	100.0%	Full Consolidation
Globion India Private Limited	100.0%	Full Consolidation
Suguna Dairy Products India Private Limited	100.0%	Full Consolidation
Suguna Foods Bangladesh Private Limited	100.0%	Full Consolidation
Suguna Foods Kenya Limited	100.0%	Full Consolidation

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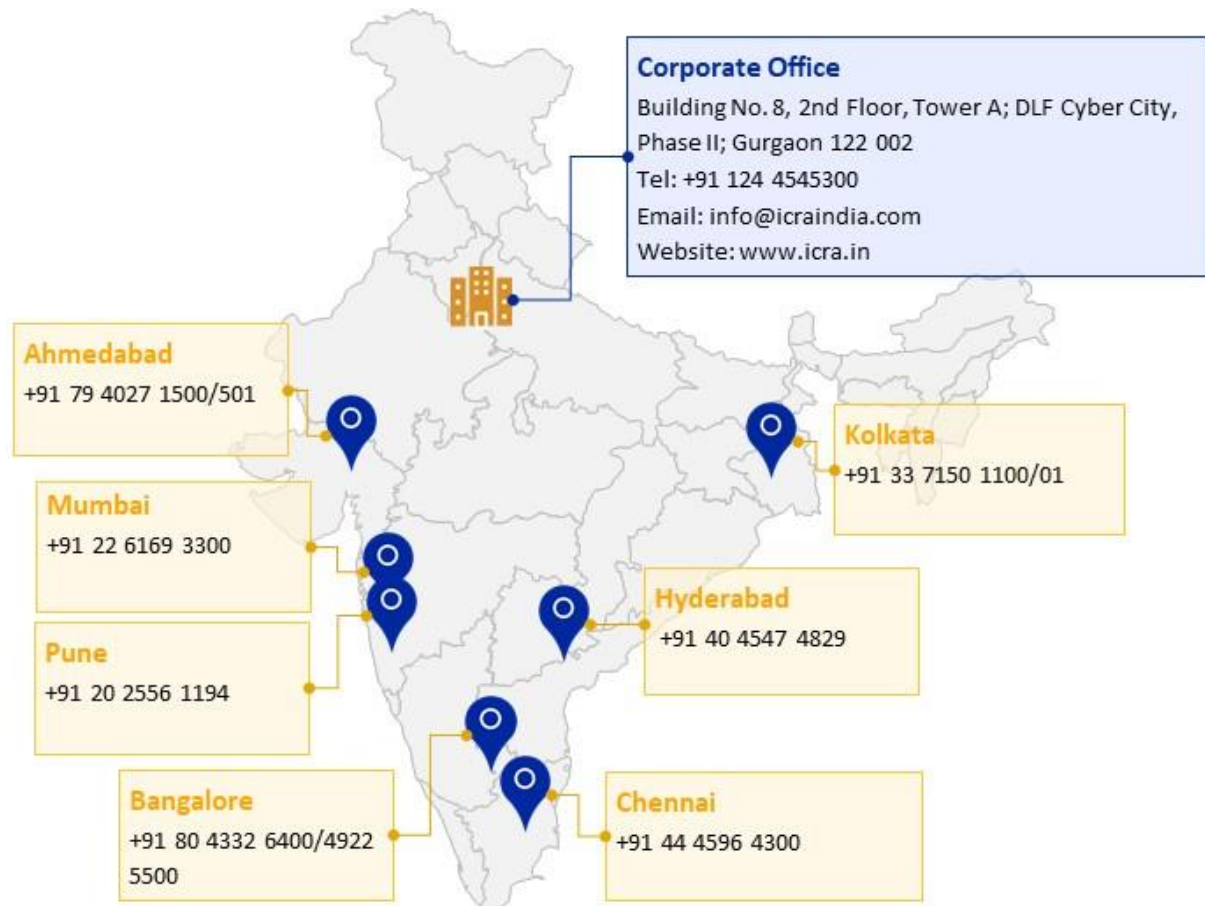
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