

January 10, 2024

Suguna Holdings Private Limited: Ratings reaffirmed; outlook revised to Positive

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 Positive from Stable
Short-term – Interchangeable	(55.00)	(55.00)	[ICRA]A2 reaffirmed
Short-term fund-based facilities	121.00	121.00	[ICRA]A2 reaffirmed
Short-term non-fund based facilities	24.40	24.40	[ICRA]A2 reaffirmed
Long-term/ short-term – Unallocated	139.60	139.60	[ICRA]BBB+/[ICRA]A2 reaffirmed; outlook revised to Positive from Stable
Total	340.00	340.00	

*Instrument details are provided in Annexure-I

Rationale

Suguna Holdings Private Limited's (SHPL) credit profile is largely driven by the performance of Suguna Foods Private Limited (SFPL), which generates ~95% of the Group revenues and over 90% of the Group debt. The revision in outlook to Positive 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, which coupled with ~Rs. 460 crore raised from monetisation of SHPL's investment in its subsidiary, Globion India Private Limited, is expected to result in lower debt and improved TOL/TNW. 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, along with 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 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 Group companies. It 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 across the value chain of the broiler industry—from soya bean processing to processed food sales.

ICRA also notes that SHPL has sold its majority stake in its subsidiary, Globion India Private Limited, to VIRBAC in an all-cash consideration for ~Rs. 467 crore and infused Rs. 400 crore of the same as equity in SFPL in Q3 FY2024.

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 in 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 pre-mixes for poultry feed and similar businesses as that of SFPL (Suguna Bangladesh and Suguna Kenya), have 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 – SFPL was promoted by Mr. B Sundararajan and his brother, Mr. GB Sundararajan, first-generation entrepreneurs, in 1984. The company has a strong brand name, aided by a track record of almost four decades. The Group has since expanded to become one of the largest integrated players in the Indian poultry industry, aided by its established relationships 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; while SFPL is the Group's flagship company, generating ~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, who 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 its ability to raise funds from globally reputed financial institutions such as International Finance Corporation (IFC) and the Asian Development Bank (ADB) at attractive rates for funding capex. This will ensure the availability of growth capital for scaling up Group 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 and investments towards development of new strains of Sunbro. Increase in working capital requirements and cash losses 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 led to weakening of coverage and capitalisation metrics. However, ICRA understands from the management that the new strains of the breed have been delivering better operational parameters in recent times, which in conjunction with the equity infusion of Rs. 500-crore to reduce debt and creditors, healthy demand outlook and stable raw material costs, is expected to help improve its financial metrics in FY2024.

Significant revenue dependence on poultry exposes revenues to inherent industry risks, along with higher concentration in low-margin, live-bird segment than peers – SHPL's flagship entity, SFPL, derives ~75-80% of its revenues from the 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 the commoditised nature of the product and market competition. However, the management is focussing on improving revenue share from the processed chicken segment, where margins are significantly higher, and from feed and soya, where the margins are relatively stable.

Liquidity position: Adequate

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. This apart, it has received ~Rs. 460 crore from its stake in Globion India Pvt. Ltd., and infused Rs. 400 crore of the same into SFPL. Further, on a consolidated level, it is expected to generate retained cash flows of 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 SHPL’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	Corporate Credit Rating Methodology Holding company methodology
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 businesses. The Suguna Group was founded in 1984 by brothers, Mr. B Soundararajan and Mr. GB Sundararajan, at 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 weaker entities in the Group, identifying new business opportunities, pruning non-profitable businesses, and protecting the investments of the promoters. SHPL’s shares are held by an independent trustee on behalf of a family private trust, wherein the beneficiaries are the promoters and their families.

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	
				Jan 10, 2023	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+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)	-	-	-	-	
2	Short-term fund-based facilities – sub-limit	(55.0)		[ICRA]A2	[ICRA]A2	[ICRA]A2	-	-	-	-	
3	Non - Fund-Based	24.4		[ICRA]A2	[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+	[ICRA]A2+	
6	Unallocated	Long term/ Short term	139.6	-	[ICRA]BBB+ (Positive) / [ICRA]A2	[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+(Positive)
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+(Positive)/[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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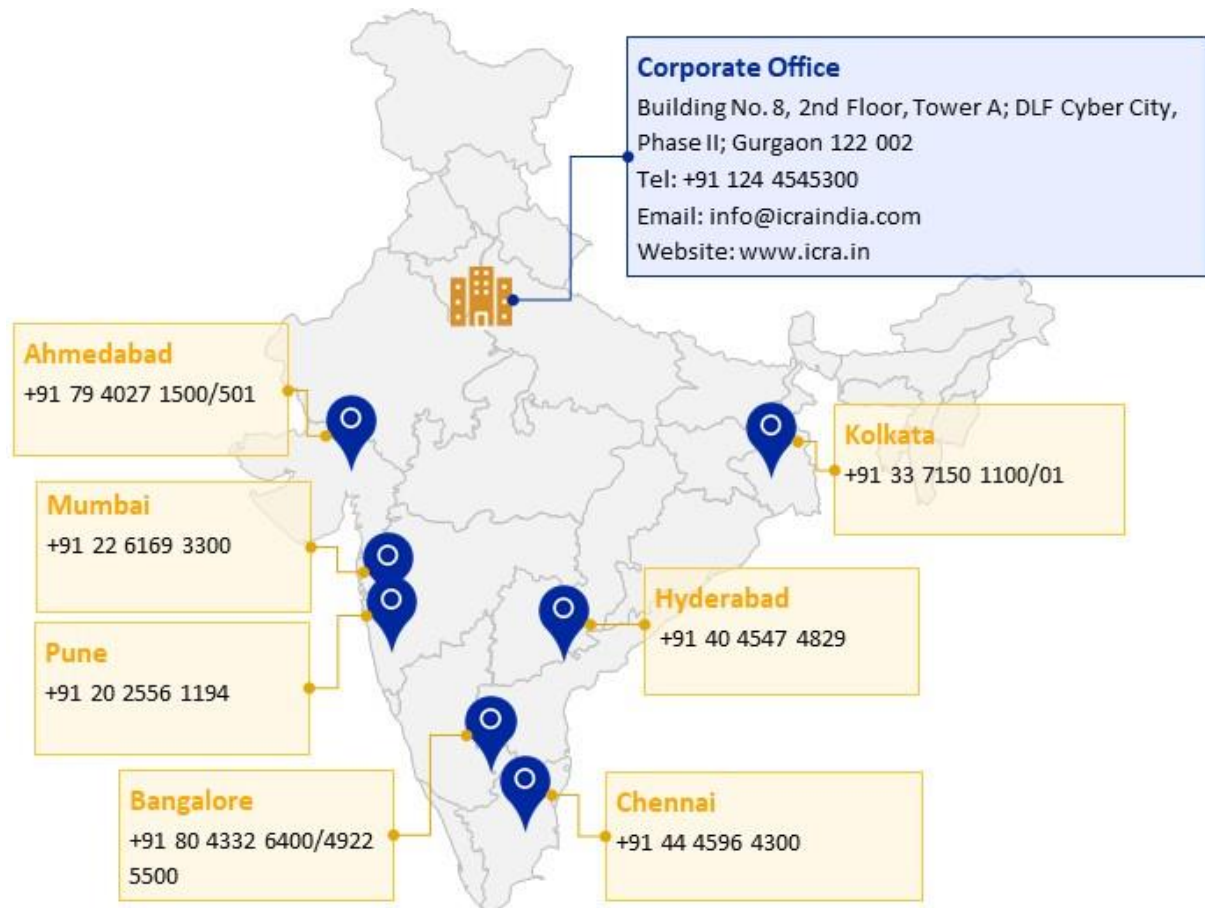
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