

Suguna Foods Private Limited

Instruments	Amount (Rs. crore)	Rating Action
LT Scale – Term Loans	352.67 (enhanced from 238.29)	[ICRA]BBB+ (Stable) / Re-affirmed, assigned
LT Scale – Fund Based Facilities	925.00 (enhanced from 800.00)	[ICRA]BBB+ (Stable) / Re-affirmed, assigned
ST Scale – Non-Fund Based Facilities	18.00 (revised from 20.00)	[ICRA]A2 / Re-affirmed
LT/ST Scale – Unallocated Limits	Nil (revised from 73.31)	-

ICRA has re-affirmed the long-term rating outstanding on the Rs. 352.67 crore¹ (enhanced from Rs.238.29 crore) long-term loans and Rs.925.00 crore (enhanced from Rs. 800.00 crore) long-term fund based facilities of Suguna Foods Private Limited (“Suguna” / “the company”) at **[ICRA]BBB+** (pronounced ICRA triple B plus)². ICRA has also re-affirmed the short-term rating outstanding on the Rs.18.00 crore (revised from Rs. 20.00 crore) short-term non-fund based limits of the company at **[ICRA]A2** (pronounced ICRA A two). The outlook on the long-term rating is **Stable**.

The rating re-affirmation factors in the strong outlook for the domestic poultry industry supported by healthy broiler realisations. Though seasonal volatility associated with the realisations is expected to remain, overall margins are expected to improve during FY2017, given the easing demand–supply situation. While the poultry industry’s efforts over the last four fiscals to regulate supply in the broiler market have not been fruitful, with the industry incurring steep losses during the traditionally weak quarter of Q3, sustained losses have led to closure of some of the smaller players. This has led to reduced broiler chick placements and a favourable demand–supply scenario in FY2017. This is reflected by the record high realisations during Q1 FY2017, although it must be noted that this is the strongest quarter in the year. ICRA also takes note of the fact that during FY2016, the company has introduced a new broiler breed, which will lower the cost of production through lower Feed Conversion Ratio (FCR). This has led to developmental charges of ~Rs.100.0 crore during FY2016, which have been capitalised, and will be amortized over a period of five years.

The ability of the company to safeguard broiler realisations during the seasonally weaker quarter of Q3 FY2017, will be critical for generating improved margins, thus moderating its capital structure and improving its debt protection metrics. This will also be a key rating sensitivity.

The ratings also factor in Suguna’s dominant position in the domestic broiler market with an estimated share of ~16%, and established brand name and proven track record of the promoters in the poultry / poultry-related business. ICRA notes the favourable long-term demand prospects for the domestic poultry industry, given the low per capita meat consumption in India in comparison to that of other countries. The ratings also factor in the wide geographical spread and vertical integration, resulting in large scale operations, longstanding relationship with a large number of contract farmers spread across 16 states, along with access to latest technology in poultry breeding, farm management practices and fund availability at competitive rates providing ability to scale up operations further. The company is also present in value-added segments like processed chicken and fortified eggs, apart from recent diversifications into non-poultry related businesses. The promoters have also infused ~Rs. 140.0 crore over the last four years in the form of equity/preference shares, which was primarily utilised for redemption of preference shares issued to International Finance Corporation (IFC) to the tune of ~Rs.102 crore between FY2013 and FY2015.

The ratings continue to be constrained by the seasonality in broiler demand, which leads to highly volatile realisations. The operational performance of the company has been relatively weaker in the past four years due to non-remunerative broiler realisations amid high feed prices. Feed prices (predominantly maize of 60% and soymeal of 30%), which form ~70% of raw material costs, have been high over the past four years except during FY2015, when the global supply of maize was healthy. The company is also exposed to inherent

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA’s website (www.icra.in) or other ICRA rating publications

industry risk of disease outbreak (bird flu) although wide geographic presence provides some cushion against regional outbreaks. The recent outbreak in Karnataka briefly affecting realisations in the region, did not affect realisations elsewhere, thereby protecting overall average realisations. Weaker performance during the past four years coupled with increase in working capital (on a larger scale) and capital expenditure requirements (~Rs. 260 crore) has resulted in the capital structure deteriorating from 1.5x as on March 2011 to 2.2x as on March 2016. Further, the company's debt protection metrics of Total Debt / OPBDITA and NCA / Total Debt appear stretched at 6.2x and 5.9%, respectively, as on March 31, 2016. With the expected improvement in margins / accruals for the current fiscal, Suguna's capitalisation and debt protections metrics are estimated to improve during the current fiscal.

Forward integration towards value-added poultry products and enhanced control over supply chain from feed ingredient procurement to retailing of output will be critical in sustainable long-term growth of the company.

Company Profile

Suguna Foods Private Limited (erstwhile Suguna Foods Limited) was incorporated in 1984 as a backyard farm in Udumalpet (Tamil Nadu). Suguna is based out of Coimbatore and operates in around 16 states. Promoted by Mr. B. Soundararajan and his younger brother, Mr. G.B. Sundararajan, first generation entrepreneurs, the company initially operated as a partnership firm, and the entity was later converted into a private limited company. The company has recently expanded its business to include dairy, herbal food, pet food, etc. The company is the flagship company of Suguna Holdings Private Limited.

Recent Results

According to provisional results, the company reported profit before tax (PBT) of Rs. 6.2 crore on an operating income of Rs. 5,773.5 crore during FY2016, as against a PAT of Rs. 36.9 crore on an operating income of Rs. 5,478.2 crore during the previous financial year of FY2015.

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