Suguna Holdings Private Limited

March 16, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Facilities	90.00	[ICRA]BBB(Stable)/[ICRA]A3Assigned
Total	**90.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long -term rating of [ICRA]BBB(pronounced ICRA triple B) and short term ratings of [ICRA]A3 (pronounced ICRA A three) to the Rs. 90.00 crore proposed facilities of Suguna Holdings Private Limited (SHPL)[1] contingent on the tenor of the facilities. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings favourably factors in SHPL's position as the holding company (hold co.) of the Suguna group of companies and its strategic importance to the promoters as the capital allocator and investment manager for the Suguna Group. The ratings also draw comfort from the extensive experience of the promoters spanning over ~32 years in the poultry industry, and the established brand name of the Suguna Group as one of the largest integrated players in the Indian poultry industry.

The ratings take into account SHPL's (standalone) high revenue dependence (~97% of revenues in FY2017) on dividends from Aminovit Feeds Limited, Srilanka (AFL) to fund the group's expansion plans into newer geographies such as Kenya. The newer companies in the group in Suguna Kenya Feeds Limited and Suguna Foods and Feeds Bangladesh Private Limited have sizable capex requirements which will be partly funded by infusion from SHPL while the balance will be met through debt backed by support from the Indian hold co. Also the group, via its eight companies, derives ~98% of its revenues from the poultry industry and affiliated activities, thereby exposing revenues to risks inherent in the cyclical poultry industry. Although few companies have sizable scale, currently all the entities in the Suguna group are privately held; typically hold cos. derive comfort from the market value buffer of their investments in listed group concerns.

The ratings take cognisance of the strong financial risk profile of SHPL (consol); characterized by stable revenues, healthy profitability, moderate capital structure and comfortable coverage indicators. Also, the ratings factor in the geographic concentration risk with major revenues flowing from India (~95% in FY2017); however, the same is expected to be partially offset by the expanding overseas operation in Kenya and Bangladesh. Going forward, SHPL's ability to diversify its standalone revenue base and self sustainable operations of the other group companies, in light of their borrowing requirements will be key monitorables for improvement in the ratings.

[1] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Outlook: Stable

ICRA believes SHPL will continue to benefit from the extensive experience of its partners. The outlook may be revised to 'Positive' if substantial growth in revenue and profitability, and better working capital management, strengthens the financial risk profile. The outlook may be revised to 'Negative' if cash accrual is lower than expected, or if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Strategic importance as the holding entity of the Suguna group of companies: SHPL is the holding company of the Suguna group of companies, which is one of the largest integrated players in the Indian poultry industry and has presence across India, Srilanka, Bangladesh and Kenya. 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

Significant experience of the promoter and established brand name: The Suguna group was promoted by Mr. B. Soundararajan and his younger brother Mr. G.B. Sundararajan, first generation entrepreneurs, in 1986, by setting up a poultry farm in Udumaipet village. Currently, the group is one of the largest integrated players in the Indian poultry industry aided by the established relationship with 30,000 contract farmers from 8,000 villages spread across 19 states in India.

Improving financial risk profile of the key company in the group-Suguna Foods Private Limited (Suguna Foods): SHPL's consolidated financial risk profile has remained strong over the last three fiscals (FY2015-17) supported by the improving financial risk profile of SFPL which contributed to ~95% of the group revenues during FY2017. During FY2018, Suguna Foods revenues are expected to grow by over 20% y-o-y aided by favorable demand prospects for the poultry industry; this coupled with subdued raw materials prices is expected to support a 60-80 bpsimprovement in operating margins from 5.5% (FY2017). Also, the improvement in the accruals is expected to moderate Suguna Food's capital structure over the next 12-18 months.

Credit challenges

High revenue concentration on the poultry industry – Of the total group revenues of ~Rs.6,026 crore recorded during FY2017, SHPL derives ~95% of its revenues from the poultry business. In the past, the Indian poultry industry has been periodically affected by record high feed prices and unfavorable broiler realizations. The highly volatile broiler realizations are a consequence of seasonal nature of demand for the poultry products in India coupled with the supply situation in the market. Rising broiler realization leads to higher chick-placements in the market, leading to an over-supply and a sharp correction in realizations. Thu, profitability remains vulnerable to fluctuations in feed prices with maize/soya forming ~65% of raw material cost. Further the poultry industry is exposed to diseases such as Avian Influenza (bird flu) outbreaks. During CY2017, outbreaks were reported in Madhya Pradesh, Delhi and Gujarat; however, Suguna group's risk is partially insulated because of it presence across 19 states.

High dependence on dividend income from a single entity in the group: SHPL does not have any standalone operations except for maize trading (Rs.3 crore during 9M FY2018). All the companies in the group are privately held by the promoters through the hold co. SHPL derives majority of its revenues as dividends from AFL (~97%% of its revenues during FY2017). This leads to high dependence on one company for dividends, which are then ploughed back into newer ventures. However, the dividends have been volatile owing to the fluctuations in AFL's input costs.

High capacity additions and investment requirements in the group concerns over the next three years: SHPL has a consistent track record of re-investing the accruals of the group into new related business ventures, expansion in the existing businesses and support to the new entities in the group. Over the next three years the group has plans for setting up a new breeder facility with a capacity of 1.15 lakh chicks per week and a aqua feed plant with a capacity of 22,000 MT per annum in Bangladesh. In Kenya, the company is planning to set up a pellet feed plant. The total capital expenditure over the next three years is expected to be~Rs.390 crore and the same will be funded through Rs.180 crore debt and balance through infusions from the hold co.

High geographic revenue concentration – Apart from the presence in India, Suguna Group has presence in Sri Lanka and Bangladesh; however, the group derives ~95% of its revenues from India. During FY2018, the group had successfully commenced operations in Kenya by establishing its breeder farms with a capacity of 6 lakh chicks per week. This coupled with the other expansion plans in the pipeline for overseas operations is expected to increase the revenue contribution from foreign operations going forward.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company:

Incorporated in 2008, SHPL is the holding company of the Suguna group which is largely concentrated in the poultry segment of the Agri and Food business. The Suguna group was founded in 1984 by the brothers Mr. B. Soundararajan and Mr. G.B. Sundararajan initially as a poultry farmer 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 includes diary, aqua feed etc.Other companies in the group include Globion India Private Limited, Aminovit Feeds Private Limited, Suguna Foods and Feeds Bangladesh Private Limited Suguna Poultry Kenya Limited and Suguna Dairy Products Private Limited.

SHPL acts as a capital allocator for Suguna group and its function includes monitoring the performance of subsidiaries, provides funding support to the weaker entities in the group, identifies new business opportunities, pruning non-profitable businesses and protecting the investments of the promoters.

In FY2017, the company reported a consolidated net profit of Rs. 121.2 crore on an operating income of Rs. 6,025crore, as compared to a net profit of Rs. 93.2 crore on an operating income of Rs. 5,909crore in the previous year.

Key financial indicators Consolidated (audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	5,909.5	6,025.5
PAT (Rs. crore)	93.2	121.2
OPBDIT/ OI (%)	4.8%	5.5%
RoCE (%)	10.8%	12.4%
Total Debt/ TNW (times)	1.4	1.1
Total Debt/ OPBDIT (times)	4.5	3.1
Interest coverage (times)	2.2	2.8
NWC/ OI (%)	24.5%	21.1%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date &Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
					March 2018	-	-	-
1	Proposed Facilities	Long Term/ Short Term	90.00	-	**[ICRA]BBB (Stable)/ [ICRA]A3**	-	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Proposed Facilities	-	-	-	90.00	[ICRA]BBB (Stable)/ [ICRA]A3

Source: Suguna Holdings Private Limited

ANALYST CONTACTS

Subrata Ray
+91 22 2433 1086
subrata@icraindia.com

V.S.Ranganathan
+91 9787897158
v.ranganathan@icraindia.com

Pavethra Ponniah
+91 44 4596 4314
pavethrap@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
naznin.prodhani@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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