May 10, 2019

Suguna Foods Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Term Loan Facilities	288.8	288.8	[ICRA]A- (stable); reaffirmed;
Long-term - Fund based facilities	980.00	980.00	[ICRA]A- (stable); reaffirmed;
Short-term - Non-fund based facilities	18.00	18.00	[ICRA]A2+; reaffirmed;
Long-term/Short-term - Proposed facilities	8.87	8.87	[ICRA]A-(stable)/[ICRA]A2+; reaffirmed
Total	**1,295.67**	**1,295.67**	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation factors in Suguna Foods Private Limited's (SFPL) established market position in the Indian poultry industry and its pan India presence supported by the long-standing experience of the promoters and a strong management team. The ratings factor in the healthy demand for poultry in India and the temporary supply gap in the market which SFPL capitalized on to increase its market share, particularly in newer territories like Kerala and Punjab. The company reported a robust revenue growth of ~15% during FY2019.

Despite the robust revenue growth, OPM dropped by 180 bps owing to fall in broiler realization coupled with increase in feed prices. The average broiler realizations dropped from Rs.74.7 per kg (FY2018) to Rs.72.4 per kg (9M FY2019). Also, the feed prices increased by 11-12% with hike in MSP for maize and high demand for soya. Going forward, with the introduction of SFPL's indigenous breed the company is expected to reduce its mortality rates and improve efficiencies which is expected to translate into improved operating margins. The ratings also take cognizance of the comfortable capital structure and coverage indicator with gearing of 0.8x, interest coverage ratio of 4.0x and NCA/TD of 26.3% as on March 31, 2019. Debt has reduced from a high of Rs.1,325 crore (Mar 31,2016) to Rs.902 crore (Mar 31,2019).

The company is also exposed to the inherent industry risk of highly volatile realizations and disease outbreak (bird flu) though its wide geographic presence across 19 States provides some cushion against the same. The industry is currently in a phase of consolidation where all the organized players are currently increasing their chick placements to service the supply gap and the same is expected to impact realizations and in turn the profitability of the poultry players. Going forward, ability of the company to retain its existing market share during FY2020 and the direction of feed costs will be key factors impacting the profitability and thereby the debt metrics of the company.

Outlook: Stable

ICRA believes that SFPL will continue to benefit from the extensive experience of its promoters. The outlook may be revised to positive on account of overall improvement in financial risk profile of the company. The outlook may be revised to negative on account of deterioration in profitability owing to fluctuation in broiler realization or increase in the raw material prices.

Key rating drivers

Credit strengths

Geographically diversified and well-integrated large scale of operations: SFPL is the largest player in the Indian poultry industry with ˜20% market share (FY2019). The company's long-standing relationship with large number of contract farmers spread across 19 States, access to latest technology in poultry breeding and establishment of in-house feed production capabilities aided in SFPL becoming one of the largest integrated players in the Indian poultry industry. Over the last five years, the company has increased the captive feed production capacities by acquiring assets and currently captive capacity meets 70% of the in-house requirements. Going forward, the company is further looking to increase its captive feed production capacities by acquiring distressed assets and has planned capital expenditure of Rs.125 crore towards the same over the next two fiscals. During FY2019 the company incurred Rs.70 crore towards the same.

During FY2019, the company acquired an order from the Indian Army to supply Rs.50 crore of processed chicken pa. To support the same, the company has acquired 2,000 birds per hour chicken processing plant in Punjab. Apart from this, the company also has an in-house capacity of 3,000 birds per hour of processed chicken.

Significant experience of the promoter/management team and established brand name: SFPL 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, particularly in south India where SFPL has a market share of 23-25% aided by three decades of experience.

Geographically well diversified revenues– SFPL is predominantly a south based player with ~42.5% of its revenues derived from the states of Tamil Nadu, Karnataka and Andhra Pradesh. However, over the years the company has established itself as a pan-India player with presence across 19 states.

Comfortable capital structure and coverage indicators – Despite the increase in debt levels from Rs.811 crore (March 31, 2018) to Rs.902.1 crore (March 31, 2019), SFPL's capital structure remained comfortable with gearing of 0.8x as on March 31, 2019Prov. supported by healthy accruals. Also, the coverage indicators remained comfortable with interest coverage of 4.0x and DSCR of 2.6x for FY2019.

Credit challenges

Inherent risks in poultry business - The poultry industry is exposed to diseases such as Avian Influenza (bird flu) outbreaks. During CY2018, outbreaks were reported in Madhya Pradesh, Delhi and Gujarat; however, SFPL risk is partially insulated because of its geographically diversified presence across 19 states.

Exposure to cyclicality – 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 is a consequence of seasonal nature of demand for 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. Further profitability remains vulnerable to fluctuations in feed prices with maize/soya forming ~65% of raw material cost. During FY2010-11, the industry posted healthy profits on account of the favorable broiler realizations and subdued raw material prices. Subsequently, the industry went through a downturn for the next five years (FY2012-16)) owing to weak broiler realization stemming from oversupply and increase in the raw material costs. During the period FY2017-18, the industry profitability revived with increase in chick placements supported by healthy broiler realizations coupled with modest soya and maize prices. Subsequently in FY2019, broiler realization moderated owing to the increase in chick placements and this coupled with increase in feed prices saw a dip in the margins. This trend in the profitability of the industry exposes the company to earnings risk during the period of industry downturn.

Liquidity Position:

During FY2019, SFPL's cash flow position has remained comfortable despite repayment obligations of Rs.40-60 crore per annum and Rs.70-100 crore of capex supported by healthy accrual generation coupled with better working capital management. Further, the company's liquidity derives comfort from the Rs.500 crore buffer of unutilized sanctioned working capital limits to meet contingencies.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation / Standalone	Not Applicable

About the company:

Suguna Foods Private Limited (erstwhile Suguna Foods Limited) was incorporated up in 1984 as a backyard farm in Udumalpet (Tamil Nadu). SFPL is based in Coimbatore and operates in over 19 states. Promoted by Mr. B. Soundararajan & 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 holding company of the group is Suguna Holdings Private Limited, which also holds other companies in the group: Globion India Private Limited, Aminovit Feeds Private Limited, Suguna Foods and Feeds Bangladesh Private Limited etc.

In FY2019 Prov., SFPL reported a net profit of Rs. 182.6 crore on an operating income of Rs. 9,034.9 crore, as compared to a net profit of Rs. 251.9 crore on an operating income of Rs. 7,876.4 crore in the previous year.

Key financial indicators

	FY2018 (Audited)	FY2019 (Prov)
Operating Income (Rs. crore)	7,876.4	9,034.9
PAT (Rs. crore)	251.9	182.6
OPBDIT/OI (%)	5.9	3.3%
RoCE (%)	22.2%	13.0%
Total Debt/TNW (times)	0.8	0.8
Total Debt/OPBDIT (times)	1.8	3.0
Interest coverage (times)	5.2	4.0

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
			Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2019	Date & Rating in FY2018		Date & Rating in FY2017
	Instrument	Type			May 2019	-	Feb 2018	Sept 2017	July 2016
1	Term Loan	Long Term	288.8	195.5	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
2	Cash Credit	Long Term	980.0	-	[ICRA]A- (Stable)	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)
3	Letter of Credit	Short Term	18.0		[ICRA]A2+	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2
4	Unallocated	Long Term/ Short Term	8.87		[ICRA]A- (Stable)/ [ICRA]A2+	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Positive)/ [ICRA]A2	

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
NA	Term Loan	Feb 2017	9.6%	Dec'2022	288.8	[ICRA]A- (Stable)
NA	Cash Credit		-	-	980.0	[ICRA]A- (Stable)
NA	Letter of Credit		-	-	18.0	[ICRA]A2+
NA	Unallocated		-	-	8.87	[ICRA]A-(Stable)/ [ICRA]A2+

Source: SFPL

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

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