

January 14, 2020

SH Food Processing Private Limited: Long-term rating downgraded to [ICRA]BBB-(CE); outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Amount Rated (Rs. crore)	Rating Action
Fund based- Cash Credit	3.50	3.50	Downgraded to [ICRA]BBB-(CE) from [ICRA]BBB+(CE); Outlook revised to Negative from Positive
Fund based- Term Loan	38.00	38.00	Downgraded to [ICRA]BBB-(CE) from [ICRA]BBB+(CE); Outlook revised to Negative from Positive
Total	41.50	41.50	

*Instrument details are provided in Annexure-1

Rating Without Explicit Credit Enhancement

[ICRA]BB+

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. Earlier, the rating symbol for this instrument/facility used to be accompanied by the (SO) suffix. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The assigned/ outstanding rating factors in ICRA's analytical approach for rating guaranteed bank facilities, based on the revised methodology viz., 'approach for rating debt instruments backed by third-party explicit support'. The rating for the bank facilities of SH Food Processing Private Limited (SFPPL) was principally based on the corporate guarantee provided by one of its stakeholders, Srinivasa Farms Private Limited (SFPL) for the bank lines of Rs. 41.50 crore. The rating revision for SFPPL follows the revision in the rating of SFPL to [ICRA]BBB(Negative)/[ICRA]A3+ from [ICRA]BBB+(Positive)/[ICRA]A2. The Negative outlook on the [ICRA]BBB-(CE) rating reflects the outlook on the rating of the guarantor.

Adequacy of credit enhancement

For assigning the rating, ICRA has assessed the attributes of the guarantee issued by SFPL in favour of the said instrument. While the guarantee is legally enforceable, irrevocable and unconditional and covers the entire amount and tenor of the rated instrument, it does not have a well-defined invocation and payment mechanism. Taking cognisance of the above, ICRA has assigned a rating of [ICRA]BBB- (CE) (Negative) to the said instrument against the unsupported rating of [ICRA]BB+. If the rating of the guarantor, SFPL, were to undergo a change in future, the same would have a bearing on the rating of the aforesaid instrument as well. The rating of this instrument may undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity, or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants related to the credit enhancement, as specified in the guaranteed documents

- » *Upon occurrence of an Event of Default by Borrower, and demand being raised by the Lender, the Guarantor shall forthwith pay to lender without any demur and/or contestation all amounts demanded.*
- » *The Guarantor guarantees the Lenders of the due payments by the Borrower including all principal and interest payments, costs, charges, expenses and all other obligations to the Bank.*
- » *The guarantee is joint and several.*
- » *The Guarantor shall waive all their rights under Sections 133, 134, 135, 139 and 141 of the Indian Contract Act, 1872.*
- » *The Guarantee shall be a continuing one remaining in full force and effect until the Borrower is fully discharged by the Bank of all the liabilities under the said credit facility/facilities.*

Key rating drivers and their description

Credit strengths

Explicit support through corporate guarantee from SFPL for Rs. 41.50-crore bank lines – The rating derives comfort from the irrevocable and unconditional corporate guarantee extended by the guarantor, SFPL.

Established track record of Srinivasa Hatcheries Group in poultry business – The Srinivasa Hatcheries Group has established track record spanning more than four decades in the poultry business.

Low funding risk with entire equity infused from promoters – The total project cost of setting up of the Mega Food Park (MFP) is Rs. 115.00 crore to be funded by equity of Rs. 27.00 crore, term loan of Rs. 38.00 crore and a grant from the Government of Andhra Pradesh (GoAP) worth Rs. 50.00 crore. As on October 31, 2019, term loan sanction of Rs. 38 crore, 100% of equity has been infused by promoters and Rs. 30-crore government grant has been received resulting in low funding risk. Further, an additional Rs. 10.00-crore grant is expected to be received in Q4 FY2020, upon achieving commercial operations. The remaining Rs. 10.00 crore of government grant would be released once five units are operational in MFP.

Credit challenges

Limited revenue visibility – SFPPPL had not signed any offtake agreements with any customers or enterprises willing to set up units in the MFP leading to uncertainty over revenues.

Risk of lower capacity utilisation levels in MFP – The profitability and cash flows are exposed to capacity utilisation levels for MFP and would remain a key rating monitorable in the near term.

Liquidity position of the guarantor: Adequate

The liquidity profile of the guarantor is adequate with average working capital limit utilisation at ~79% of the sanctioned limits in the past 12 months ending in September 2019. The guarantor has repayment obligations of Rs. 3.54 crore in FY2020 and Rs. 2.67 crore in FY2021 and Rs. 35-crore capex plans in the near term. The funding requirement in FY2020 is met by the Rs. 120-crore equity infused already, while the future requirements would be met by pending equity infusion of Rs. 65-crore from IFC in the near term and improved profitability levels from FY2021.

Rating sensitivities

Positive triggers – The rating would remain sensitive to any movement in the rating or outlook of the guarantor, SFPL.

Negative triggers – The rating would remain sensitive to any movement in the rating or outlook of the guarantor, SFPL. Negative pressure on the rating could arise in case of a delay in the COD beyond Q4 FY2020.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group company: SFPL The assigned rating is based on the unconditional, irrevocable corporate guarantee extended by SFPL.
Consolidation/Standalone	The rating is based on the company's standalone financials

About the company

SFPPL was formed to set up a MFP on the demand-driven hub-and-spoke model with backward and forward linkages to create a sustainable food value chain. It contains three vital components viz. the central processing centre (CPC), primary processing centres (PPCs) and the integrated cold chain network that connects the CPC with the PPCs. It would connect the CPC and PPCs with demand/ collection centres. The MFP is being set up at Gangavaram village, Prakasam district, Andhra Pradesh on a total land area of 53.74 acres. The CPC would be developed under the concept of industrial park model. The total project cost is estimated to be Rs. 115.0 crore funded through Rs. 27.0 crore of equity (23%), Rs. 50.0 crore grant from GoAP (43%) and remaining Rs. 38.0 crore through term debt (33%). The SPV is expected to commence operations in Q4 FY2020.

Key financial indicators (SFPPL)

	FY2018	FY2019
Operating Income (Rs. crore)	0.0	0.0
PAT (Rs. crore)	0.0	0.0
OPBDIT/ OI (%)	NM	NM
RoCE (%)	0.0%	0.0%
Total Debt/ TNW (times)	0.0	0.5
Total Debt/ OPBDIT (times)	NM	NM
Interest Coverage (times)	NM	NM
DSCR	NM	NM

Source: SFPPL, Note: NM- not meaningful

About the guarantor

Incorporated in 1983, SFPL is a part of the SH Group, which is an integrated poultry player in the domestic market with presence in poultry feed, soya processing, broiler and layer segments. SFPL entered into exclusive pan-India franchise agreement with Hyline International (Hy-Line W-80) for distribution of layer chicks. SFPL has recently diversified into value-added segments such as processed chicken, liquid egg, etc. The feed, broiler/layer DOC, integration and retail (Freshen brand) segments are undertaken by SFPL. It set up a chicken processing plant under its 100% subsidiary - SH Proteins Private Limited, which is amalgamated with SFPL with effective date of August 1, 2017. SFPPL, a 51% owned subsidiary of SFPL, is setting up a MFP for poultry processing at a total cost of Rs. 115.0 crore (of which Rs. 50.0 crore is in the form of capital subsidy from the GoAP), which is expected to begin commercial operations in Q4 FY2020.

Key financial indicators (SFPL or the guarantor)

	FY2018	FY2019	6M FY2020*
Operating Income (Rs. crore)	616.6	625.5	289.9
PAT (Rs. crore)	12.3	-31.5	-35.9
OPBDIT/ OI (%)	4.2%	-5.9%	-13.5%
RoCE (%)	16.0%	-19.8%	-40.7%
Total Debt/ TNW (times)	1.3	3.6	1.1
Total Debt/ OPBDIT (times)	3.8	(4.4)	(3.2)
Interest Coverage (times)	4.2	(3.3)	(5.8)
DSCR	3.7	(1.7)	(4.4)

Source: SFPL, *-Provisional

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			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating Jan 14, 2020	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1	Fund Based: Cash Credit	Long Term	3.50	3.50	[ICRA]BBB-(CE)(Negative);	[ICRA]BBB+(SO) (Positive)	-	-
2	Fund Based: Term Loan	Long Term	38.00	38.00	[ICRA]BBB-(CE) (Negative)	[ICRA]BBB+(SO) (Positive)	-	-

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	Cash Credit	Nov 2017	-	-	3.50	[ICRA]BBB- (CE) (Negative)
NA	Term Loan	Nov 2017	-	-	38.00	[ICRA]BBB- (CE) (Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: NA

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