Press Release

S.N.N. Poultry Farm

March 26, 2021

Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.11.58 Cr.
Long Term Rating	ACUITE B+ / Stable (Reaffirmed and Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long term rating of **'ACUITE B+' (read as ACUITE B plus)** on the Rs.10.02 Cr. bank facilities and assigned the long term rating of **'ACUITE B+' (read as ACUITE B plus)** on the Rs.1.56 Cr. bank facilities of S.N.N. Poultry Farm (SPF). The outlook is **'Stable'.**

About the Entity

Established in the year 1989, S.N.N Poultry Farm is a partnership firm engaged in the poultry business of selling eggs. The firm has its farms and feed unit in Coimbatore. The current partners of the firm are Mr. S.N.Narayanasamy, Mr. S.N. Nithyanandhan & Mr. S.N. Swaminathan.

Analytical Approach

Acuité has considered the consolidated view of the business and financial risk profile of SNN Poultry Farm (SPF) and Tulasi Poultry Farm (TPF) together referred to as the 'SNN Group' (SNNG) to arrive at the rating. The consolidation is in the view of similarity in the line of business and common management among them. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Experienced management**

SNNG is promoted by Mr. S N Narayanasamy, who has more than three decades of experience in the poultry industry. SPF was established in and was gradually expanded from 6000 birds to the present total capacity of more than 4,00,000 birds at its plant in Annur, Coimbatore. The group buys day old chicks from multiple hatcheries and sells the eggs to dealers, brokers among others. Partners' longstanding presence and relationship with the stakeholders supported in maintaining stable business risk profile. The group has reported revenue of Rs.46.68 Cr. in FY2020.

Acuité believes that SNNG will sustain its existing business profile on the back of established track record of operations and experienced management.

Weaknesses

- **Below average financial risk profile**

The group has below average financial risk profile marked by continuous deterioration in partners' capital, gearing and debt protection metrics.

The partners' capital in SNNG stood at Rs.4.07 crore as on March 31, 2020 as against Rs.4.76 crore as on March 31, 2019 and Rs.7.06 crore as on March 31, 2018. The deterioration in Partners Capital is on account of continuous withdrawal of capital in Tulasi Poultry Farm. The partners' capital is expected to improve in FY2021 on the requests made by the bank.

SNNG follows an aggressive financial policy as reflected in the gearing of 6.30 times as on March 31, 2020 as against 4.08 times as on March 31, 2019. The debt profile of SNNG majorly comprises of long term debt of Rs.5.23 crore, unsecured loans of Rs.5.08 crore and working capital facilities of Rs.15.34 crore as on March 31, 2020.

The debt protection metrics remain weak with the Interest Coverage Ratio (ICR) deteriorating to 2.14 times as on March 31, 2020 as against 2.33 times as on March 31 2019 and the Debt-Service Coverage Ratio (DSCR) to 1.70 times as on March 31, 2020 as against 1.43 times as on March 31 2019 on account increase in debt and interest charges. The Debt-EBITDA too has deteriorated to 10.27 times as on March 31, 2020 as against 8.11 times.

Acuité believes that the financial risk profile is expected to remain below average in near to medium term. Stability in the financial risk profile will remain a key rating sensitivity factor.

- **Intensive Working capital requirements**

SNNG's operations are working capital Intensive marked by Gross Current Assets (GCA) of 197 days as on March 31, 2020 as against 166 days as on March 31, 2019. The elongation in GCA days are mainly dominated by increase in other current assets, consisting mainly of advances given for Materials and elongation of Inventory holding period to 172 days in FY2020 as against 150 days in FY2019. The Debtors remain healthy on account of prompt payment policy with its customer base, the Debtors Collection period stood at 10 days in FY2020 as against 19 days in FY2019. The working capital limits remain utilised at ~90 percent for trailing 6 month period ended January, 2021.

Acuité believes that any further deterioration in the working capital management of SNNG will remain key rating sensitivity factor.

- **Cyclical nature of poultry industry and exposure to outbreaks of bird flu and other diseases**

SNNG faces significant risk of Bird flu and other diseases being in the poultry business, which can affect the demand and cause prolonged impact on prices.

- **Risk of capital withdrawal**

SNNG is exposed to the inherent risk of capital withdrawal being a partnership constitution by nature which has adversely affected the capital structure of the group firms and has limited its financial flexibility. The partners have continuously withdrawn capital from FY2018 to FY2020.

Liquidity position: Stretched

SNNG has stretched liquidity position on account of working capital intensive nature of operations and its declining cash accruals to its maturing debt obligations. SNNG's high GCA days has further lead to the bank limit utilisation of 90 percent. SNNG generated cash accruals of Rs.1.00 to Rs.1.20 Cr. during the FY2017-20 period, while it's maturing debt obligations were in the range of Rs.0.20 to Rs.0.90 Cr. increasing over the years. The cash accruals of SNNG is expected to be around Rs.1.20 to 1.50 Cr. vis-à-vis its maturing debt obligation of less Rs.1.00 Cr.

Acuité believes that liquidity of the firm will remain stretched in the near term and SNNG's ability to manage its liquidity position will remain a key rating sensitivity factor.

Rating Sensitivities

- Significant improvement in scale of operations while maintaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.

Material Covenants

None

Outlook: Stable

Acuité believes that SNNG will maintain a 'Stable' outlook in the near to medium term on account of its experienced partners and established track record of operations. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues, profitability margins and net cash accruals while maintaining/improving its debt protection metrics and financial risk profile. The outlook may be revised to 'Negative' in case the firm registers substantial decline in revenues or profitability margins or if the financial risk profile deteriorates due to higher than expected working capital requirements resulting in deterioration of the capital structure.

About the Rated Entity – Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	46.68	40.17
PAT	Rs. Cr.	0.39	0.52
PAT Margin	(%)	0.84	1.30

	Unit	FY20 (Actual)	FY19 (Actual)
Total Debt/Tangible Net Worth	Times	6.30	4.08
PBDIT/Interest	Times	2.14	2.33

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition – https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities – https://www.acuite.in/view-rating-criteria-59.htm
- Financial Ratios And Adjustments – https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
06-Jan-2020	Term Loan	Long Term	1.32	ACUITE B+ / Stable (Upgraded)
	Cash Credit	Long Term	2.00	ACUITE B+ / Stable (Upgraded)
	Term Loan	Long Term	6.00	ACUITE B+ / Stable (Upgraded)
	Proposed Bank Facility	Long Term	1.20	ACUITE B+ / Stable (Assigned)
10-Jan-2019	Term Loan	Long Term	1.32	ACUITE B (Indicative)
	Cash Credit	Long Term	5.00	ACUITE B (Indicative)
30-Nov-2017	Term Loan	Long Term	1.32	ACUITE B (Indicative)
	Cash Credit	Long Term	5.00	ACUITE B (Indicative)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan – I	January, 2015	11.45%	February, 2021	1.32	ACUITE B+ / Stable (Reaffirmed)
Term Loan – II	June, 2020	7.65%	July, 2024	1.56	ACUITE B+ / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+ / Stable (Reaffirmed)
Pledge Loan (Key Shut Cash Credit)	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B+ / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE B+ / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022 – 49294041 aditya.gupta@acuite.in Aditya Sahu Analyst – Rating Operations Tel: 022 – 49294055 aditya.sahu@acuite.in	Varsha Bist Senior Manager – Rating Desk Tel: 022 – 49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL – II norms in the year 2012. Since then, it has assigned more than 8,628 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.