

Sri Suresh Poultry Complex: Assigned

Facility	Amount (Rs. Crore)	Rating/Outlook
Cash Credit	7.50	SMERA BB-/Stable (Assigned)

SMERA has assigned long term rating of '**SMERA BB-**' (**read as SMERA double B minus**) to the Rs.7.50 crore long term bank facility of Sri Suresh Poultry Complex (SSPC). The outlook is '**Stable**'.

The rating draws support from the experienced management and long track record of operations. The rating is also strengthened by the comfortable financial risk profile, adequate debt coverage indicators and moderate profitability margins. However, the rating is constrained by the moderate scale of operations, working capital intensive business and susceptibility of profitability to volatility in broiler prices. The rating also factors in the outbreak of bird-flu and other diseases that could affect the business.

SSPC, established in 1994, is engaged in the rearing of birds, selling of eggs and other poultry products. The firm generates maximum revenue from selling of eggs. Mr. Trinadha Reddy, Partner, possesses over two decades of experience in the poultry industry. The comfortable financial risk profile is marked by healthy gearing of 1.05 times as on March 31, 2016 as compared to 1.20 times as on March 31, 2015, interest coverage ratio at 2.44 times and DSCR at 2.27 times in FY2016. The operating profit margin has been moderate at 4.81 percent in FY2016 as compared to 5.95 percent in FY2015. The financial risk profile is expected to remain comfortable over the medium term backed by steady accruals and no major debt funded capex planned in the near future.

However, the firm has booked revenues of Rs.26.17 crore in FY2016 (provisional) as against Rs. 23.30 crore in FY2015. In spite of a track record of almost two decades, the revenues are at a moderate level. SSPC has working capital cycle of 111 days in FY2016 as compared to 118 days in FY2015. Moreover, the margins of the firm are susceptible to volatility in broiler prices. Besides, seasonal variations in consumption patterns have a major bearing on broiler prices as also demand for poultry products. The rating is also constrained by risks of diseases such as bird-flu that can affect demand.

Rating Sensitivity Factors

- Significant improvement in revenues while maintaining profitability
- Efficient working capital management

Outlook – Stable

SMERA believes that SSPC will maintain a stable outlook in the medium term backed by its promoters' extensive experience and long track record of operations. The outlook may be revised to 'Positive' if the firm registers more than expected revenues while improving profitability and net cash accruals. However, the outlook may be revised to 'Negative' if the firm fails to achieve the expected revenues or profitability or if the working capital cycle further deteriorates.

Criteria applied to arrive at the rating:

- Trading Entities

About the Firm

SSPC was established by Mr. Sathi Trinadha Reddy in 1994. The Karnataka-based firm, is engaged in the rearing of broiler chicks, selling of eggs and other poultry products. The day-to-day operations are managed by Mr. K. Venkata Reddy who is well supported by experienced and qualified professionals. The firm has a capacity of 3.8 lakh birds and caters to Maharashtra, Goa and the local market in Karnataka. For FY2016, SSPC reported profit after tax (PAT) of Rs.0.35 crore (Provisional) as compared to PAT of Rs.0.31 crore in the previous year.

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