

Press Release

Tulasi Poultry Farm

January 06, 2020



Rating Upgraded

Total Bank Facilities Rated	Rs.10.52 crore (Enhanced from Rs.6.82 crore)
Long Term Rating	ACUITE B+ /Outlook: Stable (Upgraded from ACUITE B/Stable)

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from '**ACUITE B**' (**read as ACUITE B**) to Rs10.52 crore bank facilities of Tulasi Poultry Farm (TPF). The outlook is '**Stable**'.

The rating upgrade is mainly on account of marginal improvement in its working capital management which is mainly due to the stabilization of operations. The rating is however constrained by stretched liquidity and average financial risk profile.

Tulasi Poultry farm (TPF) was established in the year 1999, by Mr. S.N. Nithyanandhan & Mr. S.N. Swaminathan as a partnership firm. TPF is engaged in the poultry business of selling eggs. The firm has its farms and feed unit in Coimbatore.

About the Group

Established in the year 1989, S.N.N Poultry Farm is 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 business and financial risk profiles of S.N.N Poultry Farm and Tulasi Poultry Farm hereinafter referred to as S.N.N Group. The consolidation is mainly on account of similarities in the lines of business and common management. Extent of consolidation: Full

Key Rating Drivers

Strengths

- **Experienced Management**

S.N.N Group is promoted by Mr. S.N. Narayanasamy, who has more than three decades of experience in the poultry industry. SPF was established in 1989 and TPF in 1999 and were gradually expanded from 6000 birds to the present total capacity of 4,00,000 birds at its plant in Annur, Coimbatore. The group buys day old chicks from Venkateswara Hatcheries Private Limited, and sells the eggs to dealers, brokers among others. Promoter's longstanding presence and relationship with the stakeholders supported in stable business risk profile. The group has reported revenue of Rs. 40.17 crore in FY2019.

Acuité believes that the SNN Group will continue to benefit on account of its experienced management.

Weaknesses

- **Below average financial risk profile**

S.N.N Group's financial risk profile is below average marked by a low net worth, moderate capital structure and debt protection metrics. The net worth of the group stood low at Rs.4.76 crore as on March 31, 2019 as against Rs.7.06 crore as on March 31, 2018. Group's capital structure is highly leveraged marked by gearing (debt- equity) and total outside liabilities to tangible net worth (TOL/TNW) levels of 3.67 times and 4.23 times as on March 31, 2019 vis-à-vis 2.36 times and 2.76 times as on March 31, 2018. The debt protection metrics have moderate marked by interest coverage ratio (ICR) of 2.33 times in FY2019 vis-à-vis 2.00 times in FY2018.

Acuité believes that with moderate accruals and modest repayment obligations, the financial risk profile is expected to improve marginally over the medium term.

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

Bird flu and other diseases are critical risks in the poultry business, which can affect the demand and cause prolonged impact on prices.

- **Risk of capital withdrawal**

The group is exposed to inherent risk of capital withdrawal on account of the partnership constitution of the firms. The partners have removed funds from both the funds during FY2019.

Liquidity position: Stretched

S.N.N group has stretched liquidity due to working capital intensive nature of operations and its modest cash accruals to its maturing debt obligations. The group's gross current asset (GCA) days of stood at 166 days due to high inventory cycle of 4 to 5 months that lead to the bank limit utilisation of 90 percent. The group generated cash accruals of Rs.1.00 to 1.20 crore during the last three years through 2018-19, while its maturing debt obligations were in the range of Rs. 0.20-0.90 crore over the same period. The group is likely to incur capex of Rs.7.5 crore over the medium that is likely to be funded external borrowing of Rs.5 crore and remaining through promoter infusion of funds or internal accruals. The cash accruals of the group are estimated to be around Rs.1.20 to 1.50 crore against the repayment obligation of Rs.1 crore.

Acuité believes that the liquidity of the group is likely to remain stretched over the medium term on account of modest cash accrual against current portion of long term debt repayments over the medium term.

Rating Sensitivities

- Significant improvement in revenues while maintaining the profitability
- Further stretch in liquidity

Material Covenants

- None

Outlook: Stable

Acuité believes that S.N.N Group will continue to benefit over the medium term from its promoters experience in the poultry business. The outlook may be revised to 'Positive' in case of significant and sustained increase in the group's revenues and profitability margins, while improving its capital structure. Conversely, the outlook may be revised to 'Negative' if there is a significant decline in group's revenues or profitability margins.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	40.17	37.5
PAT	Rs. Cr.	0.52	0.46
PAT Margin	(%)	1.30	1.24
Total Debt/Tangible Net Worth	Times	3.67	2.36
PBDIT/Interest	Times	2.33	2.00

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/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited)

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Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
10-Jan-2019	Term loan	Long Term	1.47	ACUITE B (Indicative)
	Cash credit	Long term	5.50	ACUITE B (Indicative)
30-Nov-2017	Term loan	Long Term	1.47	ACUITE B (Indicative)
	Cash credit	Long term	5.50	ACUITE B (Indicative)
20-Oct-2016	Term loan	Long Term	1.47	ACUITE B / Stable (Assigned)
	Cash credit	Long term	5.50	ACUITE B / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.47	ACUITE B+/ Stable (Upgraded from ACUITE B/Stable)
Cash credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+/ Stable (Upgraded from ACUITE B/Stable)
Pledge Loan	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B+/ Stable (Upgraded from ACUITE B/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.05	ACUITE B+/ Stable (Assigned)

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About Acuité Ratings & Research:

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