

Press Release

Shakthi Vetfeeds India Private Limited

September 11, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 crore
Long Term Rating	ACUITE B/ Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE B**' (**read as ACUITE B**) to the Rs. 10.00 crore bank facilities of Shakthi Vetfeeds India Private Limited (SVI). The outlook is '**Stable**'.

Established in 2011 and based in Hyderabad (Telangana), Shakthi Vetfeeds India Pvt Ltd (SVI) is promoted and managed by Mr. M Vidya Sagar Reddy. SVI is manufacturer of poultry feed with an installed capacity of 12.5 tonnes per hour (TPH).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SVI to arrive at this rating.

Key Rating Drivers

Strengths:

- **Promoter's extensive experience in poultry segment**

The promoter has a decade of experience in the poultry industry which has helped SVI build healthy relationship with its stakeholders, to ensure a steady raw material supply and large offtake. The promoter has been in the poultry business through his associate entities - Vahini Poultries Private Limited and Rohini Hatcheries Private Limited. The former is engaged in the poultry business and produces eggs. Their farms have a layer bird capacity of 4, 00,000 layer birds. The latter is engaged in the poultry business and produces hatching eggs. Their farms have a breeding bird capacity of 80,000 birds. SVI supplies majority of its feed manufactured (more than 90 percent) to its associate entities. The promoter's industry experience has helped SVI scale up its revenue to Rs.20.60 crore (Provisional) in FY18 from Rs.15.25 crore in FY16. Acuité believes that the promoter's extensive industry experience and its established relations with suppliers and customers would aid the business risk profile of the company over the medium term.

Weaknesses:

- **Steady revenue growth yet scale remains modest**

SVI'S revenue has been growing steadily from Rs.15.25 crore in FY16 to Rs.20.60 crore in FY18 on provisional basis. However, despite the positive traction witnessed in growth over the past years, the scale has remained modest due to lower capacity utilisation levels of not more than 6 to 7 TPH as well as the its major dependence on the demand from its associate entities which have small capacity of layer birds in the poultry industry. Acuité believes that the customer diversification would lead to higher capacity utilisation, thereby resulting in higher scale of operations over the medium term.

- Stretched working capital management and customer concentration risk in revenue**

SVI's operations are highly working capital intensive with Gross Current Assets (GCA) of about 290 days as on 31 March, 2018 on provisional basis. The GCA days are marked by stretched debtor days and moderate inventory days but partially assuaged by higher credit period extended by suppliers. SVI sells majorly (95-97 percent of quantity produced) to its associate entities – Rohini Hatcheries Private Limited & Vahini Farms Private Limited against credit period of around 90-120 days. The debtor days are higher; however are improving from 318 days as on March, 2016 to 230 days as on March, 2018. Debtors more than 6 months from Vahini Hatcheries of around Rs.2.73 crore. These debtors more than 6 months have been gradually coming down from Rs.7-8 crore over the last 3 years. SVI maintains an average inventory of around two months for smooth running of operations. It procures key raw materials – maize, DOB, soya from local players in Hyderabad against credit period of 90-120 days. The company has long standing relationship with the suppliers of more than 5 years. Stretched working capital cycle has led to full utilisation of its bank lines of Rs.6.00 crore over the last six months ending July, 2018. Acuité believes that the working capital cycle would remain intensive over the medium term, due to extended credit support to its associate entities.

- Below-average financial risk profile**

SVI's financial risk profile is marked by modest capital structure and debt protection metrics. SVI's gearing has remained high over the last 3 years ending 31 March, 2018 in the range of 2.73 to 3.08 times. Gearing was at 3.08 times as on 31 March, 2018 on provisional basis. Gearing is high due to high debt and modest net worth. Net worth is modest at Rs.2.54 crore as on 31 March, 2018 vis-à-vis Rs.2.47 crore as on 31 March, 2017. SVI's modest net cash accruals and high debt has led to modest Net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.01 times and 1.08 times in FY18 vis-à-vis 0.01 times and 1.06 times in FY17. Acuité believes that the financial risk profile would remain below average over the medium term with high reliance on its bank lines to meet its working capital requirements.

Outlook:

Acuité believes that SVI will maintain a 'Stable' outlook on the back of the management's extensive experience in the poultry business. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margins while improving the working capital cycle, customer diversification and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	20.60	18.03	15.25
EBITDA	Rs. Cr.	1.16	1.03	1.28
PAT	Rs. Cr.	0.05	0.05	0.03
EBITDA Margin	(%)	5.64	5.71	8.42
PAT Margin	(%)	0.25	0.26	0.18
ROCE	(%)	11.49	9.73	22.20
Total Debt/Tangible Net Worth	Times	3.08	2.90	2.73
PBDIT/Interest	Times	1.08	1.06	1.04
Total Debt/PBDIT	Times	6.75	7.84	6.57
Gross Current Assets (Days)	Days	290	350	402

Status of non-cooperation with previous CRA:

None

Any other information:

None

Applicable Criteria

- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years):

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE B/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B/Stable (Assigned)

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About Acuité Ratings & Research:

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