

Press Release

Sri Ramana Hatcheries Private Limited

D-U-N-S® Number: 67-548-2048

December 13, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) to the Rs. 10.00 crore bank facilities of Sri Ramana Hatcheries Private Limited (SRPL). The outlook is '**Stable**'.

Incorporated in 1998, SRPL is a Nalgonda (Telangana) based company engaged in poultry farming of hatching broiler eggs. The company also sells day old chicks (DOC). The company is managed by Mr. Jayachander Vuppunutula Reddy. The facility has caging capacity of around 65,000 birds.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established Track record of operations and experienced management

The company is promoted by Mr. Jayachander Vuppunutula Reddy along with others, who have round three decades of experience in the poultry industry. The company was incorporated in 1998 and gradually expanded to the present total capacity of 65000 birds at its plants in Nalgonda. The company buys the day old layer chicks (parent level) from the farms of 'Sri Venkateswara Hatcheries'. The eggs from the grown layer birds are sold as eggs / DOC to broiler farms such as Sneha Farms and Feeds Private Limited, Urja Foods & Agro Private Limited, among others.

Experience of the promoters and management helped in improving its revenue profile steadily from Rs.10.80 crore in FY2016 to about Rs.17.3 crore in FY2018 at a compound annual growth rate (CAGR) of about 27 percent; and also turn around in its operations from operating level losses in FY2016 to profitability in FY2018. With the experience in the broiler segment, the management plans to acquire a layer bird segment. Stabilisation of operations post acquisition and incremental funding support are the key rating sensitivity factors. Acuité believes that with more urbanisation, increasing levels of standard of living and meat consumption, the business risk profile is expected to improve over the medium term.

• Moderate financial risk profile

The company's financial risk profile is marked by modest capital structure and comfortable debt protection metrics. The gearing (debt-to-equity) has improved to 0.29 times as on March 31, 2018 from 1.09 times as on March, 2017 supported by moderate cash accruals and term loan repayments. Net worth is modest at Rs.6.12 crore in FY2018 as against Rs.2.84 crore in FY2017, improved due to accretion to reserves. Moderate net cash accruals and low debt has led to healthy NCA/TD and interest coverage ratio of 2.05 times and 32.80 times in FY2018 vis-à-vis 0.54 times and 5.14 times in FY2017, respectively. However, with proposed plans to acquire a layer bird unit with a capital expenditure of about Rs.9.30 crore funded via debt of Rs.7.00 crore and rest via promoters' funds is expected to deteriorate the financial risk profile, though continues to be moderate. SRPL generated cash accruals of about Rs.3.60 crore in FY2018. Acuité believes that though operating margins have improved to about 29 percent in FY2018 from negative operating margins of 0.44 per cent in FY2016, sustainability of the margins and financial risk profile amid the proposed acquisition are key rating sensitivity factors.

Weaknesses

• Moderate working capital operations

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 160 days as on March 31, 2018 as against 81 days as on March 31, 2017. The company maintains an inventory of about 60 days and gives credit period of 30 days to its customers. Inventory days stood at 57 as on March 31, 2018 as against 70 days as on March 31, 2017. Debtor days stood at 29 as on March 31, 2018 as against 10 days as on March 31, 2017. Moderate accruals and low repayment obligations lead to low or nil reliance on external borrowings. Acuite believes that the operations continue to be at similar levels, owing to the nature of the business model.

• Exposure to intense competition and to risks inherent in the industry

There is intense competition from organised as well as unorganised players catering to regional demands. Furthermore, the poultry industry is driven by regional demand-and-supply factors because of transportation constraints, mortality rates, among others. Low capital intensity and low entry barriers facilitate the entry of new players in the unorganised segment. Also, the industry is vulnerable to outbreaks of diseases, which could lead to a decline in sales volume and realisations of poultry players.

Outlook: Stable

Acuite believes that SRPL will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations or higher-than-expected time for stabilisation of its operations in the proposed acquisition leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	17.34	16.74	10.80
EBITDA	Rs. Cr.	4.97	2.34	-0.05
PAT	Rs. Cr.	3.28	1.39	-0.92
EBITDA Margin	(%)	28.66	13.97	-0.44
PAT Margin	(%)	18.90	8.31	-8.55
ROCE	(%)	67.86	31.38	-9.89
Total Debt/Tangible Net Worth	Times	0.29	1.09	4.11
PBDIT/Interest	Times	32.80	5.14	-0.07
Total Debt/PBDIT	Times	0.35	1.32	-150.02
Gross Current Assets (Days)	Days	160	81	185

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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. Cr.)	Ratings/Outlook
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB- / Stable

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About Acuité Ratings & Research:

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