

Press Release

Sree Renuka Poultry Farm

March 28, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.50 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**) to the Rs. 12.50 crore bank facilities of Sree Renuka Poultry Farm (SRPF). The outlook is '**Stable**'.

Karnataka based, SRPF was established in 2007 as a partnership firm by Mr. K. Phanikumar and Mrs. K. Sree Lakshmi. The firm is engaged in layer poultry farming and wholesale trading of eggs. The firm has 8 sheds with a capacity of 25000 square feet each.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of SRPF to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record of operations along with experienced management**

The firm is engaged in the layer poultry farming and wholesale trading of eggs for more than a decade. Its promoter, Mr. Phani Kumar has been engaged in this line of business since the past three decades and gained vast amount of experience in the industry. Acuité believes that the long track record along with experienced management of the company has helped the company maintain a stable business risk profile.

- **Healthy profitability margins**

The firm has high profitability margins. The operating margins of the company stood at 8.78 per cent for FY2018 against 7.49 per cent for FY2017. The reason for high margins is on account of cost savings resulting from low freight costs due to proximity to customers and procurement of yearly raw materials (feed) at lower prices during the season. Acuité believes that the company will continue to maintain healthy profitability margins on account of better economies of scale and locational advantage.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by moderate net worth, high gearing and moderate debt protection metrics. The net worth of the firm stood at Rs.5.77 crore as on March 31, 2018 against Rs.5.31 crore for the previous year. The total debt of Rs.13.49 crore as on March 31, 2018 comprises Rs.3.48 crore of long term debt from the bank, Rs.1.56 crore of unsecured loans from friends and relatives and Rs.8.45 crore short term borrowings from the bank. This led to high gearing of 2.34 times as on March 31, 2018. The interest coverage ratio stood at 1.78 times for March 31, 2018 against 1.81 times for the previous year. The TOL/TNW stood high at 2.45 times as on March 31, 2018 against 2.11 times as on March 31, 2017. Acuité believes that the company will continue to maintain a moderate financial risk profile in the near to medium term.

- **Low scale of operations**

The scale of operations of the firm stood low with stable operating revenue in the range of Rs.20 -22 crore through the last three years from FY2016-2018. Although, the operating income for the period of April, 2018 to February, 2019 registered is ~Rs.30.00 crore. This is on account of increase in capacity addition in FY2018-19. Acuité believes that the firm will generate additional revenues on the back of

capacity addition.

• Working capital intensive nature of operations

The operations of the firm are working capital intensive marked by Gross Current Assets (GCA) of 209 days as on March 31, 2018 mainly dominated by high inventory levels of 212 days. This is on account of nature of business. The firm's inventory majorly includes birds and their feed. The prices of bird feed being seasonal in nature, the firm has a policy of stocking up the feed for the entire year to save on any cost escalations. This leads to higher reliance on external debt. The average utilisation stands at ~99 per cent for the last six months ending February, 2019. Acuité believes that the operations of the firm will continue to remain working capital intensive on account of nature of business.

Liquidity Position:

SRPF has moderate liquidity marked by moderate net cash accruals. The firm generated cash accruals of Rs.0.68-0.81 crore during the last three years through 2017-18 against no maturing debt obligations. The cash accruals of the firm are estimated to increase on account of capacity addition to around Rs.2.00-4.00 crore during 2019-21. The firm's working capital operations are stretched as marked by high gross current asset (GCA) days of 209 in FY 2018. This has led to ~99 percent utilisation of working capital borrowings during the last 6 months period ended February, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.02 crore as on March 31, 2018. The current ratio of the group stands moderate at 1.25 times as on March 31, 2018.

Acuité believes that the liquidity of the group is likely to remain moderate over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité believes that SRPF will maintain a 'Stable' outlook and continue to benefit over the medium term owing to the extensive experience of the promoters. The outlook may be revised to 'Positive' if the firm achieves significant growth in revenue and improvement in profitability while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile on account of higher than expected working capital requirement.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	21.07	21.22	19.95
EBITDA	Rs. Cr.	1.85	1.59	0.73
PAT	Rs. Cr.	2.30	1.82	1.60
EBITDA Margin	(%)	8.78	7.49	3.67
PAT Margin	(%)	2.30	1.82	1.60
ROCE	(%)	8.55	8.78	6.08
Total Debt/Tangible Net Worth	Times	2.34	2.10	2.31
PBDIT/Interest	Times	1.78	1.81	13.54
Total Debt/PBDIT	Times	7.29	7.02	11.69
Gross Current Assets (Days)	Days	209	232	172

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>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.30	ACUITE BB / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	6.20	ACUITE BB / Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Jyotsna Nebhnani Analyst - Rating Operations Tel: 022 49294074 jyotsna.nebhani@acuiteratings.in	

About Acuité Ratings & Research:

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