

Press Release

Sree Renuka Poultry Farm

February 25, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.50	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	23.50	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	36.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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'.

Acuité has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) to the Rs.23.50 crore bank facilities of Sree Renuka Poultry Farm (SRPF). The outlook is 'Stable'.

Rationale for rating reaffirmation

The rating reaffirmation is on account of continuous improvement in the scale of operations along with stable profitability margins and improvement in the working capital management leading to improvement in the liquidity profile. However, SRPF's financial risk profile continues to remain moderate. Acuite expects that the business and financial risk profile of the firm is likely to improve over the medium term.

About the Company

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.

Analytical Approach

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

Key Rating Drivers

Strengths

Established track record and experienced management

SRPF was established in 2007. 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. The extensive experience of the promoter is also reflected through the healthy revenue growth. The revenues of the company has grown at a CAGR of 20 percent over the last three years through FY 2021. The revenue of the firm stood at Rs.46.57 crore in FY2021 as against Rs.38.89 crore in FY2020. SRPF has also recorded a revenue of Rs 36.10 crore till December 2021 and is likely to record a healthy revenue growth for FY 2022 as well.

Acuité believes that the long track record along with experienced management has helped the firm maintain a stable business risk profile.

Efficient working capital operations

The firm has an efficient working capital cycle marked by Gross Current Assets (GCA) days of 73 days in FY2021 as against 87 days in FY2020. The receivable days stood at 4 days in FY2021 as against 3 days in FY2020. The inventory days stood at 59 days in FY2021 as against 86 days in FY2020. The average bank limit utilization stood high at around 97 percent for the last 9 months ended December 2021.

Acuité believes that efficient working capital management will be crucial to the firm in order to maintain a healthy risk profile.

Weaknesses

Moderate financial risk profile

The financial risk profile of the firm stood moderate marked by low net worth, moderate gearing and, moderate debt protection metrics. The tangible net worth stood at Rs.5.06 crore as on March 31, 2021 as against Rs.3.26 crore as on March 31, 2020. The total debt of the firm stood at Rs.13.17 crore includes Rs.6.47 crore of long term debt, Rs.0.48 crore of unsecured loans and Rs.6.22 crore of short term debt as on March 31, 2021. The gearing (debt-equity) stood at 2.60 times as on March 31, 2021 as compared to 4.08 times as on March 31, 2020. Interest Coverage Ratio stood at 2.46 times for FY2021 as against 2.07 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 2.46 times for FY2021 as against 2.06 times for FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 2.85 times as on March 31, 2021 as against 5.12 times on March 31, 2020. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.14 times for FY2021 as against 0.10 times for FY2020.

Acuité believes that the financial risk profile of the firm will continue to remain moderate over the medium term.

Susceptibility of profit margins to volatility in eggs and raw material prices

The profit margins are susceptible to volatility in eggs prices - inherent in the poultry business. Raw materials refer to maize and soya beans which are required for manufacturing of poultry feeds. Raw materials' prices are largely dependent on several external factors like demand outlook and productions and are also susceptible to volatility due to factors such as weather conditions, revision in minimum support price of maize by the government and demand and supply scenario in agricultural markets. Also, bird flu and other diseases are critical risks in the poultry business, which can affect demand and cause prolonged impact on prices.

Risk of capital withdrawal associated with partnership nature

Sree Renuka Poultry Farms was established as a partnership firm in 2007. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

Improvement in the scale of operations along with stable profitability margins.

Improvement in the financial risk profile.

Stretch in the working capital management leading to any negative impact on the liquidity profile.

Material covenants

None.

Liquidity Position: Adequate

The company has adequate liquidity marked by adequate net cash accrual against no maturing debt obligation. , the company generated cash accruals of Rs.1.10-1.85 crore during the last three years through 2019-21, while the maturing debt obligation is in the range of Rs.0.00-1.75 crore during the same period. The company's working capital operation stood efficient marked by GCA days of 73 days in FY2021 as against 87 days in FY2020. The current ratio of the company stood at 1.28 times as on March 31, 2021. However, the average bank limit utilization stood high at around 97 percent for the last 9 months ended December 2021.

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.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	46.57	38.89
PAT	Rs. Cr.	0.97	0.47
PAT Margin	(%)	2.08	1.21
Total Debt/Tangible Net Worth	Times	2.60	4.08
PBDIT/Interest	Times	2.46	2.07

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

Not Applicable.

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>
- Application Of 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/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Feb 2022	Proposed Bank Facility	Long Term	3.20	ACUITE BB Stable (Upgraded from ACUITE B+)
	Cash Credit	Long Term	6.30	ACUITE BB Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	3.00	ACUITE BB Stable (Upgraded from ACUITE B+)
18 Aug 2021	Cash Credit	Long Term	6.30	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	6.20	ACUITE B+ (Downgraded and Issuer not co-operating*)
01 Jun 2020	Term Loan	Long Term	6.20	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	6.30	ACUITE BB- (Downgraded and Issuer not co-operating*)
28 Mar 2019	Cash Credit	Long Term	6.30	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	6.20	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.30	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.20	ACUITE BB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	23.50	ACUITE BB Stable Assigned
Union Bank of India	Not Applicable	Term Loan	31-03-2018	8.5	31-03-2025	3.00	ACUITE BB Stable Reaffirmed

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About Acuité Ratings & Research

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