

Press Release

Sree Renuka Poultry Farm

February 01, 2023

Rating Downgraded



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Total Withdrawn Quantum (Rs.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

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.36.00 crore bank facilities of Sree Renuka Poultry Farm (SRPF). The outlook is '**Stable**'.

Rationale for downgrading

The rating downgrade takes into account deterioration in the leverage ratios and liquidity stretch in the FY2022 which resulted in higher reliance on short term borrowings with an average limit utilization of more than 95% for the last 12 months ended December 2022. The current ratio stood at 0.90 as on March 31, 2022. The gearing ratio stood at 2.86 times and TOL/TNW stood at 3.36 times in the March 31, 2022. Further, it considers the susceptibility of profit margins to volatility in eggs and raw material prices of the firm.

The rating continues to derive its strengths from established track record and experienced management, efficient working capital operations and capex underway for capacity expansion resulting to scaling up the revenue in 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. The firm has existing installed capacity of 3,60,000 layers. The firm sells its products, eggs, cull birds, and manure majorly to customers in Goa, Dharwad and Belgaum.

Analytical Approach

Acuite 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

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 revenue of the firm stood at Rs.47.77 crore in FY2022 as against Rs.46.57 crore in FY2021. Further, SRPF has recorded a revenue of Rs 37.59 crore till December 2022 and is likely to record a healthy revenue growth for FY2023 as well. Further, SRPF's has planned expansion of layer bird's capacity from existing 3.60 Lakh layer bird's capacity to 7.30 Lakh layer birds. The expansion is taking place in the stage wise, with increase in its first layer bird capacity in April 2023 by 1.20 lakhs. The total capex will be incurred is Rs.25.44 Cr, out of which Rs.6.00 Cr is funded by partners in the form of equity and remaining are through the term loan. The partners have already infused the capital in FY2023. Acuité believes that the long track record along with experienced management and capex plans may help the firm maintain a stable business risk profile.

Efficient Working Capital Operations

SRPF's operation are working capital efficient in nature marked by Gross Current Asset (GCA) days of 72 days in FY2022 and 73 days in FY2021. The working capital cycle remained in the said range on account of limited credit period offered to the debtors and moderate levels of inventory maintained by the firm. The debtor collection period of the firm stood at 6 days in FY2022 as against 4 days in FY2021. The firm's inventory levels remained moderate at 63 days as on March 31, 2022 vis-à-vis 59 days as on March 31, 2021 mainly due to the management strategy to procure excess raw material at a cheaper rate during the year end. On the other hand, the firm has demonstrated ability to promptly serve its creditors. The creditor payback period stands at 23 days as on March 31, 2022 as against 11 days as on March 31, 2021. Acuité believes that considering the nature of business, the working capital operations may continue to remain efficient over the medium term.

Weaknesses

Below average financial risk profile

The financial risk profile of the firm stood below average marked by low net worth, below average gearing and moderate debt protection metrics. The tangible net worth stood at Rs.4.90 crore as on March 31, 2022 as against Rs.5.06 crore as on March 31, 2021. Partners have withdrawn the capital in the FY2022 for the extent of Rs.1.00 crore. The total debt of the firm stood at Rs.14.01 crore includes Rs.5.22 crore of long term debt, short-term debt of Rs.7.65 crore, unsecured loan from partners of Rs.0.43 crore and maturing portion of long term borrowings of Rs.0.71 crore on March 31, 2021. The gearing (debt-equity) stood at 2.86 times as on March 31, 2022 as compared to 2.60 times as on March 31, 2021. Interest coverage ratio (ICR) stood at 3.00 times for FY2022 as against 2.46 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 1.54 times for FY2022 as against 1.71 times for FY2021. Total outside liabilities/Total Net Worth (TOL/TNW) stood at 3.36 times as on March 31, 2022 as against 2.85 times on March 31, 2021. Net Cash Accruals to Total Debt (NCA/TD) also stood at 0.12 times for FY2022 as against 0.14 times for FY2021. Further, with the total capex plan of Rs 25.44 Cr of which Rs 6 Cr to be funded through equity infusion and remaining through the term loan from bank, leverage ratios may deteriorate going forward. Acuité believes that the financial risk profile of the firm may continue to remain below average going forward with debt-funded capex plans.

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.

SRPF is a partnership firm established in 2007. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure. Further, in the FY 2022 as

well capital of Rs 1 Crore has been withdrawn from the business.

Rating Sensitivities

- Improvement in the scale of operations along with stable profitability margins.
- Further Deterioration in the financial risk profile of the firm with debt-funded capex.

Material covenants

None

Liquidity: Stretched

The firm's liquidity is stretched with higher reliance on short-term borrowings with an average bank limit utilization of more than 95% for the last 12 months ended December 2022. However, the net cash accruals are of Rs.1.61 Cr in FY2022 as against its maturing debt obligations of Rs.0.71 Cr for the same period. Firm is expected to generate NCA in range of Rs.1.75 -2.06 Cr against modest maturing debt obligations in range of Rs.0.75 – 2.34 Cr over the medium term. The current ratio stood below unity at 0.90 times as on March 31, 2022 against 1.17 times as on March 31, 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 leverage ratios while maintaining comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of significant deterioration in the financial risk profile with debt funded capex and higher than expected working capital requirement.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	47.77	46.57
PAT	Rs. Cr.	0.84	0.97
PAT Margin	(%)	1.77	2.08
Total Debt/Tangible Net Worth	Times	2.86	2.60
PBDIT/Interest	Times	3.00	2.46

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

Care Ratings vide its press release dated 29.07.2022, had reaffirmed the company to CARE B-;INC

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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Feb 2022	Proposed Bank Facility	Long Term	23.50	ACUITE BB Stable (Assigned)
	Term Loan	Long Term	3.00	ACUITE BB Stable (Reaffirmed)
	Cash Credit	Long Term	6.30	ACUITE BB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	3.20	ACUITE BB Stable (Reaffirmed)
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	Term Loan	Long Term	6.20	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	6.30	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*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.65	ACUITE BB- Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	7.35	ACUITE BB- Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	13.40	ACUITE BB- Stable Downgraded
Union Bank of India	Not Applicable	Term Loan	31 Mar 2018	8.5	31 Mar 2025	Simple	4.60	ACUITE BB- Stable Downgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Thejaswini P V Senior Analyst-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.