

Press Release

Sri Senthil Poultry Farm

D-U-N-S® Number: 67-548-6003

May 20, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 6.00 Cr.
Long Term Rating	ACUITE B / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) to the Rs. 6.00 crore bank facilities of Sri Senthil Poultry Farm (SSPF). The outlook is '**Stable**'.

Incorporated in 1982, SSPF is a Coimbatore based proprietorship firm engaged in poultry farming of layer eggs. The entity is promoted and managed by Mr. T.K. Arunachalm. The facility has 13 poultry sheds with a caging capacity of around 2,20,000 birds.

Analytical Approach

Acuité has considered the standalone financials of Sri Senthil Poultry Farm to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The firm is promoted by Mr. T.K. Arunachalam, who has more than four decades of experience in the poultry industry. The firm was incorporated in 1982 and was gradually expanded to the present total capacity of 2,20,000 birds at its plant in Coimbatore. It buys day old chicks from Venkateswara Hatcheries Private Limited, and sells the eggs to dealers, brokers and also to Government bodies for mid-day meal programme. Promoter's longstanding presence, regular enhancement of caging capacity though modest, and relationship with the stakeholders supported in stable business risk profile with revenues of about Rs.10.00 crore in FY2018.

• Improving scale of operations

The firm has reported revenue of Rs. 10.21 crore in FY2018 as against Rs. 8.10 crore in FY2017. This is on account of increased caging capacity from 1,90,000 birds to 2,20,000 birds on addition of buildings and poultry sheds. Further, the enhanced capacity is also supplemented by addition of new clients, particularly supplies to Government Department under mid-day meal programme. Improving revenues also partly supported the margins at 9.22 per cent in FY2018 against 8.24 per cent in FY2016. Acuité believes that the margins are expected to be at similar levels with revenues ranging around Rs.12-14 crore over the medium term.

Weaknesses

• Below-average financial risk profile

The firm's financial risk profile is marked by weak gearing and total outside liabilities to tangible net worth (TOL/TNW), though debt protection metrics are comfortable. Its gearing and TOL/TNW are weak at 5.14 and 5.93 times as on March 31, 2018. Net worth is modest at Rs. 1.18 crore in FY2018 as against Rs. 1.09 crore in FY2017, improved due to accretion to reserves. Its debt protection metrics are comfortable with interest coverage ratio and net cash accruals to total debt at 2.55 and 0.10 times in FY2018. The firm's cash accruals are expected at around Rs.0.78 crore to Rs.1.18 crore against repayment obligations of about Rs.0.16 crore, which gives adequate cushion on its liquidity. Acuité believes that with moderate accruals and modest repayment obligations, the financial risk profile is expected to improve marginally over the medium term.

• Moderate working capital operations

The firm's operations are working capital intensive as evident from its Gross Current Assets (GCA) of 156 days as on March 31, 2018 as against 109 days as on March 31, 2017. The firm maintains an inventory of about 85 days and gives credit period of 30 days to its customers. Debtor days stood at 54 as on March 31, 2018 as against 14 as on March 31, 2017. This has led to around 70 percent utilisation of the working capital limits for the past 6 months through 31 March, 2019. Due to increase in revenue profile, the operations continue to be working capital moderate over the medium term.

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

The firm faces 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 and the perishable nature of the products. Low capital intensity and entry barriers facilitate the entry of 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.

Liquidity Position:

Liquidity of the firm is moderate marked by moderate cash accruals against repayment obligations. It has reported cash accruals of Rs. 0.59 crore in FY2018. NCA is expected to be in the range of Rs. 0.8 - 1.2 crore against the minimal repayment obligations of Rs. 0.16 crore over the medium term. The firm's operations are working capital intensive with GCA of 156 days in FY2018; this led to high utilisation of its bank lines at about 70 per cent for 6 months through 31 March, 2019. The firm's current ratio is comfortable at 1.4 times as on March 31, 2018. The firm undertakes regular capex of about Rs.0.10 - Rs.0.40 crore. Acuite believes that with the proprietor's experience, moderate accruals to repayment obligations and working capital intensive, the liquidity continues to be at moderate levels over the medium term.

Outlook: Stable

Acuite believes that SSPF will maintain 'Stable' outlook in the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'positive' if the firm registers higher than expected growth in its revenues while maintaining stable profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management or larger-than-expected debt-funded capex or significant withdrawal of capital 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.	10.21	8.10	8.08
EBITDA	Rs. Cr.	0.94	0.73	0.67
PAT	Rs. Cr.	0.16	0.17	0.14
EBITDA Margin	(%)	9.22	9.01	8.24
PAT Margin	(%)	1.58	2.10	1.67
ROCE	(%)	8.46	10.04	21.60
Total Debt/Tangible Net Worth	Times	5.14	4.04	3.26
PBDIT/Interest	Times	2.55	2.37	2.18
Total Debt/PBDIT	Times	6.28	5.88	4.63
Gross Current Assets (Days)	Days	156	109	99

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
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B / Stable
Short-term loan	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B / Stable

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About Acuité Ratings & Research:

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