

Press Release

Sriya Farm

August 08, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	21.00	ACUITE BB+ Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	21.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating from '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) to '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 21.00 Cr bank facilities of Sriya Farm. The outlook is '**Stable**'.

Rationale for downgrade

The rating downgrade factors the average financial risk profile marked by high gearing, average net worth and deteriorating coverage indicators. Further, the elongation in the working capital cycle from 56 days in FY2020 to 157 in FY2022 (prov) increases the group's dependence on short term borrowings. The average bank limit utilization of the group stood at 98 percent for the 8-month ended May-2022, despite enhanced limits along with availing additional adhoc limits. In addition, Acuite also takes into account revenue stagnation at an average of 215.00 Cr through FY2020-22. Besides susceptibility to fluctuation in raw material prices (maize, soya and rice bran) may adversely impact the group's profitability.

About the Company

Sriya Farm (SF) is a Bangalore based firm established in 2003. The firm is promoted by Dr. Suresh Babu and Dr. Sharada Ramamurthy. The firm is engaged in poultry integration business. It operates majorly in Karnataka (4 districts) and Andhra Pradesh (2 districts).

About the Group

Sriya Farms and Feeds Private Limited (SFFPL) is a Bangalore based company, incorporated in 2015. The company is promoted by Dr. Suresh Babu and Dr. Sharada Ramamurthy. The company is engaged in the manufacturing and selling of poultry feed.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of Sriya Farms and Feeds private Limited and Sriya Farm, hereby referred to as Sriya Group (SG). The consolidation is on account of similar line of business, common management and significant operational synergies between the entities. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

- **Experience of promoters and established track record of operations:**

SG was established in 2003. The group was established by Dr. Suresh Babu and Dr. Sharada Ramamurthy. Both the promoters have more than two decades of experience and still continue to actively participate in the business. The extensive experience of the promoters have helped the group in maintaining healthy relationship with its customers and suppliers. Acuité believes that SG will continue to benefit from its experienced management and established relationships with customers.

- **Vertically integrated poultry business:**

SG has presence across the value chain of the poultry industry including manufacturing of poultry feed, breeding of layer and broiler chicks and contract farming. About 95 percent of the poultry feed manufactured are consumed in house. The company derives revenue through sale of live birds, hatching eggs, day old chicks, and sale of feed and processed meat. SG derives more than 80 percent revenue through live bird and day old chick sale.

- **Stable demand for poultry products:**

Poultry products like processed meat, eggs and live birds have large consumption across the country in different types of food dishes in homes and restaurants. The demand has been driven by the rapidly changing food habits of the average Indian consumer, dictated by the lifestyle changes in the urban and semi-urban regions of the country. The demands for poultry products are sustainable and accordingly, this kind of industry is relatively insulated from the economic cycle. The revenue of the Group remains at average of Rs. 215.00 Cr through FY2020-22 despite the covid-19 outbreak. However, the profitability of the company remains susceptible to fluctuation in raw material prices (maize, soya and rice bran) as raw material accounts for 75-80 percent of the aggregate cost incurred. Also, operating margins of the company in FY2020 and FY201 declined to ~5 percent against 6-7 percent in earlier years due to high advertising cost incurred considering the rumor around poultry consumption during the pandemic. In FY2022 (prov), the operating margin stood at 7 percent.

Weaknesses

- **Average financial risk profile:**

The group has an average financial risk profile marked by average net worth, high debt and deteriorating coverage metrics. The net worth of the company stood at Rs. 35.74 Cr as on March 31, 2022 (prov) against Rs. 30.60 Cr as on March 31, 2021. The increase in net worth is attributable to accretion to reserves and capital contribution of Rs. 0.22 Cr in FY2022 (prov). The aggregate debt of the group increased to Rs. 88.62 Cr as on March 31, 2022 (prov) against Rs. 65.00 Cr as on March 31, 2021. The aggregate debt consists of long term debt of Rs. 21.47 Cr, USL from promoters of Rs. 15.44 Cr and short term debt of Rs. 51.71 Cr. The increase in debt is attributable to increased working capital cycle days to 157 in FY2022 (prov) against 92 in FY2021. The group also availed adhoc facility of Rs. 5.00 Cr. Additionally, the company availed additional loan of Rs. 17.60 Cr in FY2022 to fund the price hike of raw materials. The group follows an aggressive leverage policy marked by 3 year average gearing of 2.48 times through FY2020-22.

The interest coverage ratio and debt coverage ratio of the company as on March 31, 2022 (prov) 1.92 times and 1.79 times.

- **Working capital intensive nature of operations:**

The operations of the company are working capital intensive marked by Gross current asset days of 276 in FY2022 (prov) against 144 in FY2020. The increase in GCA days can be attributed to increase in debtor and inventory days by 142 days against creditor day increase of 40 days in FY2022 (prov) against FY2020. The overall substantial increase in inventory and debtor days not backed by same level of increase in creditor days has increased dependence on short term borrowings. The bank limit utilization of the group stood at 98

percent despite availing additional banking facilities.

Acuite believes, further increase in the working capital cycle days will adversely impact the ability of the company to scale up its operations going forward.

Rating Sensitivities

- Further, stretch in working capital cycle adversely impacting the liquidity of the group.
- Debt funded expansion resulting into further deteriorating in the financial risk profile.
- Sustained improvement in revenue while maintaining profitability.

Material covenants

None.

Liquidity Position: Stretched

The group generated net cash accruals of Rs. 6.17 Cr in FY2022 (prov) and Rs. 4.93 Cr in FY2021 against repayment obligation of Rs. 2.48 Cr and Rs. 2.96 Cr respectively. Going forward the net cash accruals are expected to be Rs. 4.63 Cr and Rs. 4.77 Cr in FY2023 and FY2024 respectively against repayment obligation of Rs. 8.91 Cr and Rs. 6.81 Cr.

The operations of the company are working capital intensive the working capital cycle days increased to 157 in FY2022 (prov) against 92 in the previous year. On account of increased working capital cycle days the average bank limit utilization of the group stood at 98 percent for the 8 month ended May 2022 despite availing Rs.5.00 Cr of additional banking facilities.

Acuite believes the Groups liquidity position to remain stretched on account of moderate cushion between and its net cash accruals and repayment obligations and low unutilized bank limits.

Outlook: Stable

Acuite believes that the group will continue to maintain a 'Stable' outlook owing to its established market position and experienced management, integrated operations and stable revenue. The outlook may be revised to 'Positive' in case the group achieves higher than expected growth in revenues and while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of further deterioration in the capital structure and liquidity position on account of debt funded expansion or increased working capital requirements.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	211.59	212.97
PAT	Rs. Cr.	3.08	1.84
PAT Margin	(%)	1.46	0.86
Total Debt/Tangible Net Worth	Times	2.48	2.12
PBDIT/Interest	Times	1.92	1.81

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

CARE vide its press release dated 15 June 2022, has classified SF as 'Issuer Not Cooperating' and rated 'CARE B/Stable'.

Brickwork Ratings vide its press release dated 13 June 2022 has classified SFPPL as 'Issuer Not cooperating' and rated 'BWR C+'.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

- Entities In Manufacturing Sector -<https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.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
11 Mar 2021	Proposed Bank Facility	Long Term	5.80	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.40	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	0.80	ACUITE BBB- Stable (Assigned)
19 Jun 2019	Cash Credit	Long Term	21.00	ACUITE BBB- 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	12.00	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.12	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.20	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.68	ACUITE BB+ Stable Downgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

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