

Press Release

SUNDARAM POULTRY FARM

January 3, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.8.09 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE B+** (read as ACUITE B plus) on the Rs.8.09 crore bank facilities of SUNDARAM POULTRY FARM (SPF). The outlook is '**Stable**'.

SPF was established in 2000 as a proprietorship firm, later in 2018, the constitution was changed to partnership firm. Mr. T K Krishnamurthy, Mr. T K Krishnamurthy, Mr. G.K Shanmugasundaram, Mrs. S. Suganthi are the partners of the firm. The firm engaged in the business of selling hatched eggs and its facility has located at Maniyakarar Thottam, Dasapalayam, Annur Coimbatore, Tamil Nadu with a capacity of around 1,50,000 birds.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SPF to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of partners**

The firm is promoted by Mr. T K Krishnamurthy, who has more than three decades of experience in the poultry industry. The firm was established in 2000 and was gradually expanded to the present total capacity of 1,50,000 birds at its plant in Annur Coimbatore. It buys day old chicks and sells the eggs to dealers, brokers and others. Partner's longstanding presence and regular enhancement of caging capacity though modest has supported in stable business risk profile. The firm has reported revenue of Rs. 14.54 crore in FY2019 as against Rs. 11.10 crore in FY2018. This is on account of regular increased caging capacity of birds on addition of buildings and poultry sheds. Acuité believes that the SPF will continue to benefit on account of its experienced management and healthy relations with customer and supplier base.

- **Efficient Working capital Management**

SPF's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 47 days as on March 31, 2019. The firm maintains an inventory of about 28 days. Debtor days stood at xx days for FY2019 as against 4 for FY2018. This has led to moderate reliance over working capital indicated by ~90 percent utilisation of the working capital limits for the past 6 months through November, 2019. Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the firm coupled with healthy debtor collection period extended to its customers.

Weaknesses

- **Weak financial risk profile**

SPF financial risk profile is weak, marked by low net worth, moderate capital structure and debt protection metrics. SPF's tangible net worth stood at Rs.2.67 crore as on March 31, 2019 as against Rs.1.03 crore as on March 31, 2018. The gearing (debt- equity) and total outside liabilities to tangible net worth (TOL/TNW) levels stood moderate at 1.51 times and 1.80 times respectively as on March 31, 2019 as against 4.98 times and 5.21 times as on March 31, 2018. The debt protection metrics are moderate marked by interest coverage ratio (ICR) of 2.09 times in FY2019 as against 2.69 times in FY2018. SPF reported cash accruals of Rs.0.38 crore in FY2019; further, its cash accruals

are expected to be in the range of Rs.0.50-1.00 crore in FY2020-22 against its repayment obligations of about Rs.0.50 crore during the same period. Acuité believes that with moderate accruals and repayment obligations, the financial risk profile is expected to remain weak over 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: Stretched

The liquidity position of SPF is stretched, marked by stretched net cash accruals to its maturing debt obligations. The net cash accruals of the firm have been in the range of Rs. 0.35-0.65 crore during the period from FY2017 to FY2019, whereas its current maturing debt obligations have been in the range of Rs. 0.30-0.60 crore during the same period. Its accruals are expected in the range of Rs. 0.40-0.90 crore, against which its obligations are about Rs. 0.50-0.60 crore during the same period. Its limits are highly utilised at over 90% during the last six months through November 2019. Acuité believes that going forward, the liquidity position of the firm will continue to remain stretched in the medium term on account moderate cash accruals to its repayment obligations.

Rating Sensitivities

- Scaling up of sales along with considerable improvement in the profitability margins
- Any unplanned significant capex resulting in deterioration in the financial risk profile.

Material

Covenants

None

Outlook: Stable

Acuité believes that SPF will maintain a '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 improving its profitability and 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	14.50	11.10
PAT	Rs. Cr.	0.15	0.16
PAT Margin	(%)	1.01	1.46
Total Debt/Tangible Net Worth	Times	1.51	4.98
PBDIT/Interest	Times	2.09	2.69

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>
- 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/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	1.85	ACUITE B+ / Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.24	ACUITE B+ / Stable
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ / Stable

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About Acuité Ratings & Research:

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