Press Release

Senthil Andavar Feeds

September 29, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB**' **(read as ACUITE double B)** on the Rs.7.00 crore bank facilities of Senthil Andavar Feeds (SAF). The outlook is **'Stable'**.

Senthil Andavar Feeds (SAF) was established as a proprietrix entity promoted by Mrs. S. Sedipoun (wife of K. Subramanian) in 1985. SAF is engaged in the poultry feed manufacturing and its manufacturing facilities are based at Palani (Tamil Nadu).

About its Group Company

Mani Broilers (Mani) was established as a proprietorship entity promoted by Mr. K. Subramanian in 1985. Mani Broilers is based at Palani (Tamilnadu) and it is engaged in the poultry (broiler) business.

Analytical Approach

For arriving at the ratings, Acuité has consolidated the financials of two Group entities Mani Broilers (Mani) and Senthil Andavar Feeds (SAF), collectively referred to as Mani's Group or Group, as both the entities are given the close operational, financial and managerial linkages among them. Extent of consolidation is full.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

  Mani Group was promoted by Mr. K. Subramanian and his wife Mrs. S. Sedipoun, first-generation entrepreneurs, in 1985. It has been in the poultry business for over three decades and it has established a strong brand name, particularly in Tamil Nadu. The integrated operations of the group provide competitive advantage being the main raw material required in a poultry farm is feed, which accounts for the major cost and it is produced in-house ensures quality and availability. As reflected by a marked improvement in the overall scale of operations over the years. The operating income of the Group increased at a CAGR of around 24% to Rs.185.26 crore in FY2020 (provisional) compared to Rs.119.95 crore in FY2018. In addition, strong long-term demand prospects of the domestic poultry industry, on the back of favourable socio-economic factors supports the Group business over the medium term.

  Acuité believes that promoter's established presence in the poultry industry will sustain and support the firm business profile over the medium term.

- **Moderate financial risk profile**

  Mani's Group financial risk profile is moderate aided by a moderate networth, moderate gearing (debt-to-equity) and moderate debt protection metrics. Group's net worth at Rs.15.45 crore as on March 31, 2020 (provisional) as against Rs.13.72 crore in FY2019 due to accretion of reserves during the same period. Moderate net worth coupled with moderate debt levels shows the moderate capital structure marked by moderate gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) levels of 1.05 times and 1.93 times respectively, as on March 31 2020 (provisional) vis-à-vis 1.53 and 2.36 times respectively, as on March 31 2019. Debt protection metrics were moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 1.75 times and 0.05 times, respectively, in FY2020 (provisional) vis-à-vis 9.63 times and 0.15 times for FY2019. The Group has generated cash accruals of Rs.0.80 to 3.16 crore during the last three years through 2019-20 (provisional), while its maturing debt obligations were in the range of Rs.0.15-0.35 crore during the same period. The cash accruals of the group are estimated to remain around Rs.2-2.5 crore during FY2021-23 while their repayment obligations are estimated to be around Rs.0.65-0.95 crore during the same period.

  Acuité believes that the financial risk profile of the firm is expected to remain moderate over the medium term on account of no significant capex plans over the medium term.

- **Efficient working capital management**
  The Mani's group's working capital is efficiently managed as reflected by the Gross Current Assets (GCA) days at of 74-84 days over the past three fiscals ended through March 31, 2020 (provisional). This is mainly on accounts of the low inventory holding period of 41-45 days over the past three fiscals ended March 31, 2020 (provisional). The company has debtor's days of 11-21 days over the past three fiscals ended March 31, 2020 (provisional). On the other hand, the company gets less credit of around 28-55 days from its suppliers during past three fiscals ended through March 31, 2020 (provisional). As a result, the reliance on working capital limits utilized is around 63 percent during the past six months ended through July 2020. Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels and efficient collection mechanism maintained by the group.

Weaknesses

- **Profitability vulnerable to movement in raw material prices**
  The profitability remains vulnerable to fluctuations in feed prices with maize/soya forming ~65–70% of raw material cost. The prices of the raw materials remain volatile on the back of fluctuation in domestic production due to dependence on agro-climatic condition, international prices, government regulations (minimum support price). The EBITDA margin Margins have remained in range-bound between 3.61 to 1.14 percent over the last three years through FY2020 (provisional). Net margins continued to remain in the range of 0.21 to 1.94 percent over the last three years through FY2020 (provisional). Improvement from the current profit margins and achieving optimum sales volumes will be the key rating sensitivities, going forward.

- **Exposure to cyclicality in the poultry industry**
  In the past, the Indian poultry industry has been periodically affected by record high feed prices and unfavourable broiler realisations. The highly volatile broiler realisations are a consequence of the seasonal nature of higher chick placements in the market from organised and unorganised players, leading to an oversupply and a sharp correction in realisations. Poultry industry in India is severely affected by the outbreak of bird flu or avian influenza on a consistent basis. Moreover, the perceived limitations in quarantining the outbreak of infections make the entire country susceptible to the outbreak in any region. Hence, this division remains susceptible to such developments, as recently reflected by fall in broiler prices on speculation linking chicken as possible vector of the coronavirus disease, which resulted in a sharp decline in domestic demand during February-March-2020. This adversely impacted the average realisations for broiler chicken and demand in Q4FY2020. However, after the panic subsided and demand increased, broiler realisation started rising gradually from the beginning of the current fiscal. However, the broiler realisation again started moderating from the later part of June and various bio-security measures adopted by the group over the years, which mitigate the risk to some extent.

- **Risk of capital withdrawal**
  Mani's Group constitution as proprietorship entities is exposed to discrete risks, including the possibility of withdrawal of capital by the promoter. Moreover, the proprietorship nature partially limits the flexibility to raise the funds vis-à-vis a limited firm.

Liquidity Position: Adequate

The group has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations and efficient working capital management. The group has generated cash accruals of Rs.0.80 to 3.16 crore during the last three years through 2019-20 (provisional), while its maturing debt obligations were in the range of Rs.0.15-0.35 crore during the same period. The cash accruals of the group are estimated to remain around Rs.2-2.5 crore during FY2021-23 while their repayment obligations are estimated to be around Rs.0.65-0.95 crore during the same period. Mani's group working capital is efficiently managed as reflected by the Gross Current Assets (GCA) days at of 74-84 days over the past three fiscals ended through March 31, 2020 (provisional). As a result, the reliance on working capital limits utilized is around 63 percent during the past six months ended through July 2020. The current ratio stands at 1.23 times as on 31 March 2020 (provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accruals against its repayment obligations.

Rating Sensitivities

- Significant improvement in scale of operations, while improving its profitability margins
- Sustenance of prudent working capital cycle
- Further decline in operating profitability, resulting in weaker cash accrual.

- Any further large debt-funded capital expenditure, impacting the financial risk profile adversely.

Material covenants

None

Outlook: Stable

Acuité believes that Mani's Group outlook will remain stable owing to the promoter's experience in the poultry industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of further weakening of profitability margins or any further large debt-funded capital expenditure, impacting the financial risk profile adversely.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	185.26	165.93
PAT	Rs. Cr.	0.39	2.68
PAT Margin	(%)	0.21	1.61
Total Debt/Tangible Net Worth	Times	1.05	1.53
PBDIT/Interest	Times	1.75	9.63

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

None

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
- 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 (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	7.00	ACUITE BB/Stable (Assigned)

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