

Press Release

Sneha Farms Private Limited

February 08, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 939.00 Cr.
Long Term Rating	ACUITE A/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A1 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE A**' (**read as ACUITE A**) on the Rs.936.13 crore bank facilities of Sneha Farms Private Limited (SFPL). Acuité has also assigned short-term rating of '**ACUITE A1**' (**read as ACUITE A one**) on the Rs. 2.87 crore bank facilities of SFPL. The outlook is '**Stable**'.

About the Company

Hyderabad-based SFPL was incorporated in 1994 by Mr. D Ram Reddy, Mr. Gopal Reddy and Mrs. Anuradha Reddy. SFPL is the flagship company of Sneha Group (SG) comprising of Sneha Farms Private Limited and Sneha Foods and Feeds Private Limited (SFFPL). The group is engaged in poultry integration, feeds, premixes, solvent extractions and refining of edible oils. SG operates with the brand name "Sneha Fresh Chicken".

About the Group

The Sneha Group (SG) was established by the incorporation of SFPL in 1994 followed by the incorporation of SFFPL in 2008. The latter is in the business of Soya edible oil extraction with the installed capacity of 750 Tons Per Day. The group has presence in key locations across India i.e. Maharashtra, Andhra Pradesh, Hyderabad and Telangana etc. Further the group runs around 100 of its own retail outlets for sales of broilers. SG employs around 4565 employees across all of its facilities.

Analytical Approach

Acuité has consolidated the business risk and financial risk profile of SFPL and SFFPL to arrive at the rating. The consolidation is in view of common management, presence in the same line of business and significant financial and operational linkages between the group entities. The group is herein referred to as "Sneha Group" (SG). Extent of consolidation: Full.

Key Rating Drivers

Strengths

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

The Sneha group commenced its operations in 1994 and thus has a long track record of operations of nearly three decades in the poultry business. Further in addition to the poultry business, the group has continuously diversified their business into various streams over the years for instance Oil extraction, in-house feed production for chicken, fish and dog feeds, frozen and marinated food, retail shops and sale of eggs etc. Moreover the group has strong presence across the southern region of India with operations in Andhra Pradesh, Hyderabad and Telangana. The group has also ventured into the Edible oil business in the state of Maharashtra.

The promoters of the group, Mr. Ramreddy, Mrs. Anuradha, Mr. Varun Reddy & Mr. Gopal Reddy are seasoned industry veterans having been associated with the poultry industry for over three decades. The top management is well supported by second line of experienced management team. Established presence of the group along with experienced management has helped in maintaining long relationship with its customers which has resulted in healthy scale of operations maintained by the group as reflected by the operating income of Rs. 3045.29 crore in FY2020, Rs. 2879.31 crore in

FY2019 and Rs. 2487.51 crores in FY2018. Further, the group has registered revenue of around Rs. 2111.14 crore in the current year till October 2020.

Acuité believes Sneha group will continue to benefit from its long track of operations, repeated orders from customers and the rich experience of the management over the medium term.

• **Healthy financial risk profile**

The financial risk profile of group stood healthy marked by healthy net worth, moderate gearing and healthy coverage indicators. The tangible net worth of the group stood healthy at Rs. 608.71 crores as on 31 March, 2020 as against Rs. 519.70 crores as on 31 March, 2019 on the back of healthy accretion to reserves, which in turn is a result of healthy profitability levels maintained by the group over the years.

The group has followed a moderately aggressive financial policy in the past which is reflected by its peak gearing levels of 1.55 times as on March 31, 2018. The current gearing (debt-to-equity) stands at 1.19 times as on 31 March, 2020 compared to 1.10 times in the previous year. The gearing levels of the group have remained in the above mentioned range attributing to the continuous capital expenditure incurred towards acquisition of latest machinery and expansion of the installed capacities. The total outside liabilities to total net worth (TOL/TNW) ratio stands at 1.76 times as on 31 March, 2020 against 1.68 times as on 31 March, 2019. The Debt protection metrics of the group have remained healthy marked by the interest coverage ratio 3.19 times and the debt service coverage ratio of 1.47 times as on 31st March 2020.

The net cash accruals to total debt (NCA/TD) stood comfortable at 0.21 times for FY2020. The group reported healthy net cash accruals (NCA) of Rs. 149.51 crore in FY2020. The cash accruals are expected in the range of Rs.282.00 crore to 192.00 crore, against debt obligations in the range of Rs. 62.43 to Rs. 53.79 crores over the next three years.

Acuité believes that the group will be able to sustain its existing financial risk profile in near to medium term backed by establish presence in the Industry, extensive experience of promoters, healthy net cash accruals to support any major debt funded capital expenditure.

• **Efficient Working Capital Operations**

The group's operation are comfortable in term of working capital marked by Gross Current Asset (GCA) days of 94 days in FY2020, 71 days in FY2019 and 86 days in FY2018 respectively. The working capital cycle is remained in the said range on account of limited credit period offered to the debtors and moderate levels of inventory maintained by the group. The debtor collection period of the group stood around a month in FY2020 (~ 31 days) in FY2020 as against 28 days in FY2019. The group's inventory levels remained moderate at 63 days as on March 31, 2020 vis-à-vis 38 days as on March 31, 2019 due to the mainly due to the pandemic. On the other hand, the group has demonstrated ability to promptly serve its creditors. The creditor payback period stands at 18 days as on 31st March, 2020 as against 25 days as on 31st March 2019. The comfortable working capital operations have led to moderate utilization of the bank lines at about an average of ~69 per cent for the last 6 months through August 2020.

Acuité believes that, with the nature of business, the working capital operations are expected to be comfortable over the medium term. Further, the group's ability to improve stock rotation and efficiently working capital cycle management will be a critical credit constraint.

Weaknesses

• **Competitive Industry and susceptibility to fluctuation in raw material prices**

The group operates in an industry marked by various organized and unorganized players will low product differentiation which poses a challenge to retain customers, maintaining margins and sales etc. however, the same is mitigated to an extent due to strong brand presence of the group and procurement of major raw materials in peak seasons by cash.

Additionally the main cost associated to the raw material of the group is attributed to feed production which contributes to around 70-78% of the total turnover of the group. The major ingredients of the feed are Maize and Soya whose prices have remained fragile in the past years. Therefore, the profitability of the group is directly dependent to the procurement cost.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Deterioration in working capital cycle leading to deterioration of financial risk profile and liquidity

Material Covenants

None

Liquidity Position: Strong

Liquidity is marked by healthy accruals to the tune of Rs.149.51 crore in FY2020 against repayment obligations to the tune of Rs.78.61 crore. The current ratio of the group stood 1.08 times and gross current asset days stood at 94 days in FY2020. The group had unencumbered cash and bank balances of Rs.5.08 crore as on March 31, 2020. The group's reliance on working capital borrowings is average; the cash credit limit remains utilized at ~69 percent during the last six months period ended Aug 2020. The cash accruals of SG are estimated to remain healthy during FY2021 to 2023 in the range of Rs.282.00 crore to 192.00 crore. Acuité believes that the liquidity of the group is likely to remain strong over the near to medium term.

Material Covenants

None

Rating Outlook: Stable

Acuité believes that the outlook on SG will remain 'Stable' over the medium term on account of the promoter's extensive experience, healthy financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	3045.29	2879.31
PAT	Rs. Cr.	95.84	89.42
PAT Margin	(%)	3.15	3.11
Total Debt/Tangible Net Worth	Times	1.19	1.10
PBDIT/Interest	Times	3.19	3.60

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>
- Entities in service sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Entities in manufacturing sector - <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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore.)	Ratings/Outlook
13-January-2021	Cash Credit	Long Term	120.00	ACUITE A/ Outlook: Stable (Assigned)
	Cash Credit	Long Term	180.00	ACUITE A/ Outlook: Stable (Assigned)
	Cash Credit	Long Term	100.00	ACUITE A/ Outlook: Stable (Assigned)

	Cash Credit	Long Term	55.00	ACUITE A/ Outlook: Stable (Assigned)
	Cash Credit	Long Term	95.00	ACUITE A/ Outlook: Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A/ Outlook: Stable (Assigned)
	Term Loans	Long Term	89.12	ACUITE A/ Outlook: Stable (Assigned)
	Term Loans	Long Term	19.00	ACUITE A/ Outlook: Stable (Assigned)
	Term Loans	Long Term	15.69	ACUITE A/ Outlook: Stable (Assigned)
	Term Loans	Long Term	93.82	ACUITE A/ Outlook: Stable (Assigned)
	Term Loans	Long Term	58.50	ACUITE A/ Outlook: Stable (Assigned)
	Term Loans	Long Term	60.00	ACUITE A/ Outlook: Stable (Assigned)
	Proposed long term facility	Long Term	2.87	ACUITE A/ Outlook: Stable (Assigned)

***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	120.00	ACUITE A/ Outlook: Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	180.00	ACUITE A/ Outlook: Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A/ Outlook: Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A/ Outlook: Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	95.00	ACUITE A/ Outlook: Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A/ Outlook: Stable (Reaffirmed)
Term Loans	Not Available	Not Available	Not Available	89.12	ACUITE A/ Outlook: Stable (Reaffirmed)
Term Loans	Not Available	Not Available	Not Available	19.00	ACUITE A/ Outlook: Stable (Reaffirmed)

Term Loans	Not Available	Not Available	Not Available	15.69	ACUITE A/ Outlook: Stable (Reaffirmed)
Term Loans	Not Available	Not Available	Not Available	93.82	ACUITE A/ Outlook: Stable (Reaffirmed)
Term Loans	Not Available	Not Available	Not Available	58.50	ACUITE A/ Outlook: Stable (Reaffirmed)
Term Loans	Not Available	Not Available	Not Available	60.00	ACUITE A/ Outlook: Stable (Reaffirmed)
Proposed long term facility	Not Applicable	Not Applicable	Not Applicable	2.87	ACUITE A1 (Assigned)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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