Press Release

SNEHA FARMS PRIVATE LIMITED

June 01, 2023

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1339.00	ACUITE A+ | Stable | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	1339.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of **'ACUITE A+' (read as ACUITE A Plus')** on the Rs. 1339.00 crore bank facilities of Sneha Farms Private Limited (SFPL). The outlook is **'stable.'**

Rationale for rating reaffirmation:

The reaffirmation of ratings factors into the improvement in operational and financial performance of the group during FY23. The group generated a turnover of Rs. 5,003.08 crore (estimates) against Rs. 4,698.40 crore in FY2022. The operating margin is estimated to remain in the range of 10–12 percent for FY2023. The financial risk profile continues to remain healthy, marked by a healthy net worth, moderate gearing, and improving debt protection metrics. The rating also continues to draw comfort from the experience of the management, vertically integrated value chain, strong brand reputation, diversified customer base, and efficiently managed working capital operations of SG.

As a part of its growth plan, the group is establishing its own retail brand in the name of "Snackster" for its processed food segment. The retail sales segment of processed food is expected to contribute to 5–10 percent of the group's turnover during the initial years. The company is also on track to undertake its capex plan as per its schedule. SG's management planned to incur capex of around Rs. 400–500 crore spread over the next five years towards scaling up operations, expansion of processing capacity and feed plant capacity,set-up of additional hatchery farms, laying farms, and brooding farms, enhancing silos storage, and extension of geography. Till FY2023, the company has already incurred Rs. 200 crore towards the expansion of its processing capacity and feed plant capacity.

Going forward, with a venture into the higher margin-generating food processing retail segment and continuous capex towards improving their back-end feed plant capacity, the group's ability to scale up its operations while maintaining its profitability margins and capital structure will remain a key rating sensitivity.

About Company

Hyderabad-based SFPL was incorporated in 1994 by Mr. D. Ram Reddy, Mr. Gopal Reddy, and Mrs. Anuradha. SFPL is the flagship company of Sneha Group (SG), which comprises Sneha Farms Private Limited and Sneha Foods and Feeds Private Limited (SFFPL). The group is engaged in poultry integration, feeds, premixes, solvent extractions, and the refining of edible oils. SG operates under 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. SFFPL is in the business of soy edible oil extraction, with an installed capacity of 750 tonnes per day. The group has presence in key locations across India, i.e., Maharashtra, Andhra Pradesh, Hyderabad, Telangana, etc. Further, the group has a strong sales and distribution network through its own retail outlets, multiple franchisee outlets, and collaborations with regional restaurants. SG employs around 5,696 employees across all of its facilities.

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

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).

Key Rating Drivers

Strengths

Established track record of operations along with experienced promoters
The Sneha Group commenced its operations in 1994 and thus has a long track record of operations spanning 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, the sale of eggs, etc. Moreover, the group has a strong presence across the southern region of India, with operations in Andhra Pradesh 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, and Mr. Gopal Reddy, are seasoned industry veterans who have been associated with the poultry industry for over three decades. The established presence of the group, along with experienced management, has helped in maintaining long-term relationships with its customers and diversifying its customer base, which has resulted in a healthy scale of operations.

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

Improving operating performance:
The group's operating income improved significantly in FY2022 to Rs. 4698.40 crore from Rs. 3441.10 crore in FY2021. The improved scale was sustained in FY2023, with an estimated revenue earning of Rs. 4978.19 crore for the year. The revenue growth is driven by the higher consumption trend noted in respect of eggs and chicken post-COVID-19 pandemic compared to during the pandemic. During the pandemic, due to the integrated nature of SG's operations, when demand was low, SG stored broiler chicken in processed forms in its units. Post-pandemic, with the re-opening of the markets, SG was able to meet the increased demand and improve its overall market share. Further, for perishables like broiler chicken and eggs that were not processed, prompt deliveries were maintained at their respective outlets via in-house logistic facilities.

The group reported an operating margin of 11.62 percent during FY22, which declined from 13.29 percent in FY21. Further, the group is estimated to report an operating margin ranging between 10.10 and 10.50 percent for FY2023. This slight decline in operational margins is due to an increase in raw material costs of soy seeds, maize, etc. used for feed production and overall limited bargaining power for end products due to the market-driven nature of product pricing and their perishable nature. However, due to the advantages of a vertically integrated business model that generates SG, the operating margins are expected to remain in the range of 10–11 percent over the medium term.

In order to increase the group's market share and capture the increasing demand, promoters are strategically planning for capex, through which the group is going to increase their feed plant capacity first rather than increasing the processing capacity straight away. Since feed plant capacity enhancement requires major work compared to increasing capacity in processing farms, layers, etc.

Diversification into the retail segment

As a part of its growth plan, the group is establishing its own retail brand in the name of "Snackster" for its processed food segment. The retail sales segment of processed food is expected to contribute 5–10 percent of the group's turnover during the initial years. The products are sold through its own outlets, supermarkets, and franchisee stores. The project is an initiative to add brand value, recognition, and goodwill to the group and increase its presence in the B2C segment.

The company is also on track to undertake its capex plan as per its schedule. SG's management planned to incur capex of around Rs. 400–500 crore spread over the next five years towards scaling up operations, expansion of processing capacity and feed plant capacity,set-up of additional hatchery farms, laying farms, and brooding farms, enhancing silos storage, and extension of geography. Till FY2023, the company has already incurred Rs. 200 crore towards the expansion of its processing capacity and feed plant capacity.

Healthy financial risk profile:

The net worth of the group stood at Rs. 1199.45 crore as of March 31, 2022, and is estimated to be at Rs. 1511.71 crore as of March 31, 2023. The improvement is on account of the healthy accretion of net profit in the reserves during the period. The group has a healthy gearing level (debt-equity) of 0.60 times as of March 31, 2023 (estimates), compared to 0.57 times as of March 31, 2022. The debt protection metrics of the company are healthy, with the interest coverage ratio and debt service coverage ratio at 8.51 times and 3.4 times, respectively, as of March 31, 2023 (estimates), compared to 9.95 times and 3.42 times, respectively, in the previous year. Total outside liabilities to tangible net worth stood at 0.84 times as of March 31, 2023 (estimates), which is similar to the previous year. Debt to EBITDA is moderate at 1.72 times as of March 31, 2023 (estimates), compared to 1.24 times as of March 31, 2022. This slight deterioration in debt to EBITDA is due to an increase in short-term debt during FY23. Total debt as of March 31, 2022, consists of long-term debt of Rs. 264 crore and short-term fund-based limits of Rs. 424.10 crore.

Acuite believes that the financial risk profile of the group is expected to be healthy in the medium term on account of a healthy business risk profile.

Efficient working capital operations:

SG Group's working capital operations are efficiently managed, which is evident from the gross current assets (GCA) days of 116 in FY23 (estimates) against 74 days in FY22. The group offers a credit period of 15–20 days to its customers and generally pays the creditors in less than 20 days. The inventory of the group consists of raw materials like maize and soy seeds and biological assets like day-old chicks, hatching eggs, broilers, and layers. As of March 31, 2023, the biological assets value was Rs. 376 crore. The huge value of inventory maintenance has led to high utilisation of fund-based working capital limits, at an average of 90 percent in the past 12 months ending February 2023. Acuité believes that, with the nature of business, working capital operations are expected to be comfortable over the medium term. Further, the group's ability to improve stock rotation while efficiently managing capital operations will be a key monitorable aspect.

Weaknesses

Competitive industry and susceptibility to fluctuations in raw material prices
Competitive industry and susceptibility to fluctuations in raw material prices The group operates in an industry marked by various organised and unorganised players with low product differentiation, which poses a challenge to retaining customers, maintaining margins and sales, etc. However, the same is mitigated to an extent due to the strong brand presence of the group and the procurement of major raw materials in peak seasons on an immediate payment basis, which aids in locking in major raw material costs. The main cost associated with the raw materials of the group is attributed to feed production, which contributes to around 80 percent of the total production cost of the group. The major ingredients of the feed are maize and soy, whose prices have remained fragile in the past few years. Therefore, the profitability of the group is directly dependent on the procurement costs. Also, the industry is vulnerable to outbreaks of diseases such as bird flu, which could lead to a decline in sales volume and the realisation of poultry players. Acuité believes that the group's operating metrics are susceptible to intense competition and inherent risks in the poultry industry.

ESG Factors Relevant for Rating

Crop and livestock production can have a substantial environmental impact. The inherent material risks to this industry include the release of greenhouse gases, the utilisation of excess water, water pollution, and land and biodiversity loss. Energy conservation and the efficient use of resources are key ingredients for sustainability in this business. Factors such as business ethics, management compensation, and board diversity hold primary importance apart from audit control with regards to governance. Social issues significant for the industry are community support and development, employee safety, and human rights concerns such as child labour. Sneha Group (SG), a close family-owned business, is engaged in poultry integration, feeds, premixes, solvent extractions, and the refining of edible oils. SG operates under the brand name "Sneha Fresh Chicken" for its retail poultry business. SFPL's board consists of eight directors, including three female directors, while SFFPL's board has four directors and a single female director, although none of them are in the independent category. SG has established a vigil mechanism for directors and employees to report unethical behaviour within the organisation, actual or suspected fraud, or violations of the company's code of conduct or business ethics. Under its Corporate Social Responsibility (CSR) activity, the group has founded a trust, "Sneha Foundation," and takes initiatives focusing on improving the quality of life of underprivileged communities. The foundation contributes to rural development projects like education, drinking water, and infrastructure.

Rating Sensitivities

- Improving the scale of operations while maintaining its profitability margins and capital structure.
- Significant Stretch in GCA days leading to increased dependency on working capital limits resulting in deterioration of financial risk profile.

Material Covenants
None

Liquidity Position : Adequate

The liquidity position of the group is strong, marked by the healthy generation of net cash accruals (NCAs) against its maturing debt obligations. SG has generated net cash accruals (NCA) in the range of Rs. 320 Cr–390 Cr over the period FY2020–22 against its debt obligations ranging between Rs. 70 Cr–72 Cr for the same period. The group is expected to generate NCAs in the range of Rs. 385 Cr–420 Cr over the medium term, against a CPLTD of Rs. 87 Cr–Rs. 65 Cr. The current ratio of the group is estimated to be 1.50–1.60 times FY23E, compared to 1.29 times in FY2022. SG Group has maintained unencumbered cash and bank balances of Rs. 12.82 crore as of March 31, 2022. The working capital limits are highly utilised, at an average of

90 percent over the past 12 months ending February 2023. Going forward, the group's liquidity position is expected to be strong on account of healthy cash accruals against repayment obligations, an improving scale of operations, and efficient working capital management.

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 the case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'negative' in the event of a deterioration in the financial and liquidity profiles, most likely as a result of a higher than expected infusion of long-term debt for capex and a higher than expected dependency on working capital limits.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	4698.40	3441.10
PAT	Rs. Cr.	323.32	263.94
PAT Margin	(%)	6.88	7.67
Total Debt/Tangible Net Worth	Times	0.57	0.77
PBDIT/Interest	Times	9.95	8.16

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

None

Any Other Information

None

Applicable Criteria

- Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
- Complexity Level Of Financial Instruments: https://www.acuite.in/view-rating-criteria-55.htm
- Consolidation Of Companies: https://www.acuite.in/view-rating-criteria-60.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-52.htm
- Manufacturing Entities: https://www.acuite.in/view-rating-criteria-59.htm
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.htm

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
03 Mar 2022	Proposed Bank Facility	Long Term	4.38	ACUITE A+ | Stable (Assigned)
	Cash Credit	Long Term	120.00	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Proposed Term Loan	Long Term	61.22	ACUITE A+ | Stable (Assigned)
	Term Loan	Long Term	1.50	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	75.00	ACUITE A+ | Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A+ | Stable (Assigned)
	Proposed Bank Facility	Short Term	9.71	ACUITE A1 (Reaffirmed)
	Term Loan	Long Term	40.00	ACUITE A+ | Stable (Assigned)
	Proposed Cash Credit	Long Term	100.00	ACUITE A+ | Stable (Assigned)
	Term Loan	Long Term	46.05	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	51.50	ACUITE A+ | Stable (Assigned)
	Cash Credit	Long Term	105.00	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	50.22	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Working Capital Demand Loan	Long Term	75.00	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	52.02	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	50.60	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	40.10	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Cash Credit	Long Term	180.00	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Cash Credit	Long Term	50.00	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Proposed Term Loan	Long Term	17.90	ACUITE A+ | Stable (Assigned)
	Cash Credit	Long Term	95.00	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	59.11	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	4.69	ACUITE A+ | Stable (Upgraded from ACUITE A | Stable)
	Term Loan	Long Term	19.00	ACUITE A | Stable (Reaffirmed)
	Cash Credit	Long Term	95.00	ACUITE A | Stable (Reaffirmed)
	Cash Credit	Long Term	55.00	ACUITE A | Stable (Reaffirmed)
		Long		

08 Feb 2021	Cash Credit	Term	50.00	ACUITE A | Stable (Reaffirmed)
	Cash Credit	Long Term	120.00	ACUITE A | Stable (Reaffirmed)
	Cash Credit	Long Term	100.00	ACUITE A | Stable (Reaffirmed)
	Term Loan	Long Term	93.82	ACUITE A | Stable (Reaffirmed)
	Term Loan	Long Term	58.50	ACUITE A | Stable (Reaffirmed)
	Term Loan	Long Term	60.00	ACUITE A | Stable (Reaffirmed)
	Term Loan	Long Term	89.12	ACUITE A | Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	2.87	ACUITE A1 (Assigned)
	Term Loan	Long Term	15.69	ACUITE A | Stable (Reaffirmed)
	Cash Credit	Long Term	180.00	ACUITE A | Stable (Reaffirmed)
13 Jan 2021	Proposed Bank Facility	Long Term	2.87	ACUITE A | Stable (Assigned)
	Cash Credit	Long Term	100.00	ACUITE A | Stable (Assigned)
	Term Loan	Long Term	15.69	ACUITE A | Stable (Assigned)
	Cash Credit	Long Term	55.00	ACUITE A | Stable (Assigned)
	Cash Credit	Long Term	95.00	ACUITE A | Stable (Assigned)
	Cash Credit	Long Term	120.00	ACUITE A | Stable (Assigned)
	Term Loan	Long Term	19.00	ACUITE A | Stable (Assigned)
	Cash Credit	Long Term	180.00	ACUITE A | Stable (Assigned)
	Term Loan	Long Term	93.82	ACUITE A | Stable (Assigned)
	Term Loan	Long Term	58.50	ACUITE A | Stable (Assigned)
	Term Loan	Long Term	60.00	ACUITE A | Stable (Assigned)
	Cash Credit	Long Term	50.00	ACUITE A | Stable (Assigned)
	Term Loan	Long Term	89.12	ACUITE A | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	92.00	ACUITE A+ | Stable | Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	210.00	ACUITE A+ | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	155.00	ACUITE A+ | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	105.00	ACUITE A+ | Stable | Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A+ | Stable | Reaffirmed
RBL Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	125.00	ACUITE A+ | Stable | Reaffirmed
ICICI Bank Ltd	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	55.98	ACUITE A+ | Stable | Reaffirmed
RBL Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	75.00	ACUITE A+ | Stable | Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	50.00	ACUITE A+ | Stable | Reaffirmed
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.29	ACUITE A+ | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	52.11	ACUITE A+ | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	30 Apr 2018	10.25	31 Oct 2023	Simple	22.50	ACUITE A+ | Stable | Reaffirmed
Indusind Bank Ltd	Not Applicable	Term Loan	26 May 2020	9.25	31 May 2029	Simple	49.11	ACUITE A+ | Stable |

								Reaffirmed
Canara Bank	Not Applicable	Term Loan	01 Sep 2020	9.00	28 Feb 2028	Simple	41.39	ACUITE A+ | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	17 Jan 2022	9.25	31 Dec 2029	Simple	40.10	ACUITE A+ | Stable | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	17 Jan 2022	9.25	31 Dec 2029	Simple	50.60	ACUITE A+ | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	16 Jul 2020	8.00	31 Jul 2027	Simple	60.75	ACUITE A+ | Stable | Reaffirmed
Union Bank of India	Not Applicable	Term Loan	01 Nov 2015	10.40	31 Oct 2022	Simple	0.17	ACUITE A+ | Stable | Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	27 May 2021	7.50	31 Mar 2027	Simple	40.00	ACUITE A+ | Stable | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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