

Press Release

Sneha Foods & Feeds Private Limited

March 03, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE A+ Stable Assigned	-
Bank Loan Ratings	70.00	ACUITE A+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE A+** (read as **ACUITE A plus**) from '**ACUITE A** (read as **ACUITE A**) on the Rs.70.00 Cr bank facilities of Sneha Foods & Feeds Private (SFFPL).

Acuité has also assigned its long-term rating of '**ACUITE A+** (read as **ACUITE A plus**) on the Rs.30.00 Cr bank facilities of Sneha Foods & Feeds Private Limited (SFFPL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating revision factors in strong performance of Sneha Group (SG) despite the challenging external environment conditions during FY2021, its ability to demonstrate improvement in operating income and profitability margin in FY2021 despite the moderation in the Q1FY2021 due to the impact of Covid-19 pandemic on the business operations. The rating also factors in the established market presence of the Sneha Group in the poultry sector, its extensive experience of the management, presence of end-to-end vertically integrated value chain. The growth of demand in poultry industry and increasing market share of SG is evident from strong Year-to-date (YTD) financials posted by the group. The group's revenue was recorded at Rs.3081.66 Cr in 8MFY2022 with EBITDA margins of 12.56 per cent. The working capital management of the group remained moderate in nature as evident from GCA days of 92 days, thereby, resulting in moderate dependence on working capital limits with average utilization being around ~74 percent over the past 8 months ending November, 2021. Net worth of the group improved and stood at Rs.880.80 Cr as on March 31, 2021 as against Rs.608.71 Cr as on March 31, 2020 on account of continuous healthy accretions of net profit to the reserves during the period. The group is in process of sanction of additional debt for capital expenditure towards capacity expansion, set-up of back-end infrastructure to cater the increasing processing capacity and develop an efficient vertically integrated value chain. Acuite believes that the group can capitalize on the increase in demand through on-going capex plans over the near to medium term as evident from the performance demonstrated as of 8MFY2022. These rating strengths are partly offset by competitive industry and susceptibility to fluctuation in raw material prices.

About Company

Maharashtra-based SFFPL was incorporated in 2008 and the company is promoted by Mr. D Ram Reddy, Mr. Gopal Reddy and Ms. Anuradha. SFFPL is a part 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 Sneha Farms Private Limited (SFPL) in 1994 followed by the incorporation of SFFPL in 2008. SFFPL 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 has strong sales and distribution network through its own retail outlets, multiple franchisee outlets and collaboration 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 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 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 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. 3,441.10 Cr in FY2021, Rs. 3,045.29 Cr in FY2020, Rs. 2,879.31 Cr in FY2019 and Rs. 2,487.51 Cr in FY2018, resulting in 11 percent compound annual growth rate (CAGR) over the period. Further, the group has registered revenue of around Rs. 3,081.66 Cr in the current year till November 2021. 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.

- **Capex underway for capacity expansion and set-up of support infrastructure; scaling up value-added products**

SG's management plans to incur capex of around Rs.400-500 Cr spread over next five years towards scaling up of 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. SG has received term loan sanction from banking institutions for funding the capex requirements over the medium term. The group would be commissioning the plant for manufacturing of 'Value added products' such as chicken nuggets, burger patties, sausages, salamis, pizza toppings, etc. in near term up-to 2 months. Currently, SG is providing raw chicken to many leading Quick service restaurant (QSR) players. So, these value added products will be targeted towards these customers. Apart from B2B buyers, SG will launch these products to general public through its own branding. Moreover, the group has already done the pilot projects of these products in retail stores and received good feedback from the customers. SG has its distribution channel in place as the group sells frozen (chilled) chicken in retail supermarkets and stores and these products would be sold through same distribution channel. SG has a strong sales and distribution network through its own retail outlets, multiple franchisee outlets and collaboration with regional restaurants.

SG has incorporated a new entity 'Sneha Gold Proteins Private Limited' (SGPPL) in FY2022 for setting up an additional solvent extraction unit in Maharashtra. SGPPL will be established by next 18 months and would contribute towards the raw material requirement (Soya DOC) of the group and would be engaged in commercial sale of extracted soya oil under 'Sneha' branding. Acuité believes that the capex towards captive feed plant, silos, additional farms would aid in the business and financial risk of the company over the medium term.

- **Healthy Financial risk profile**

SG's financial risk profile is healthy, marked by a healthy networth, moderate gearing along with improving debt protection metrics. The EBITDA margins of the group has significantly improved to 13.29 per cent in FY2021 against 7.20 in FY2020. The improvement is attributable to two factors. First one being the lower cost of processing in the covid-19 pandemic period and sales of the same at higher rates after processing and freezing. Secondly, the major reason has been the low feed cost for the group during the period as the major raw material that contributes to feed cost such as maize, soya and rice bran, etc. were available at comparatively lower rates and procured during season. The PAT margins in FY2021 has improved to 7.67 per cent in FY2021 in comparison to 3.15 per cent in previous year. The improvement in profitability levels has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood improved at 8.16 times and 2.90 times respectively in FY2021 as against 3.19 and 1.47 times respectively in the previous year.

The net worth of the group stood at Rs.880.80 Cr as on 31 March, 2021 as against Rs.608.71 Cr as on 31 March, 2020. The improvement is on account of healthy accretion of net profit in the reserves during the period. The gearing level (debt-equity) stands improved at 0.77 times as on 31 March, 2021 as against 1.19 times as on 31 March, 2020, the improvement is on account of decrease in short term debt and strengthening of net worth during the period. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 1.15 times as on 31 March, 2021 against 1.63 times in previous year. Moderate TOL/TNW is on account of presence of moderately aggressive leverage policy and increase in payables to Rs.206.51 Cr during the period.

The total debt of Rs.680.28 Cr as on 31 March, 2021 consist of Rs.198.73 Cr as long term debt, Rs.6.92 Cr as unsecured loans from promoter group, Rs.401.48 Cr as short term debt and current portion of long term debt of Rs.73.14 Cr. The company is moderately aggressive towards its leverage policy and has been managing the working capital requirements and capex through external borrowings and internal accruals. NCA/TD (Net cash accruals to total debt) stands improved at 0.47 times in FY2021 as against 0.21 times in FY2020.

Acuité believes that the group will be able to sustain its existing financial risk profile in near to medium term backed by healthy capital structure and comfortable net cash accruals to support any major debt funded capital expenditure.

• Efficient Working Capital Operations

SG Group's operation are comfortable in term of working capital marked by Gross Current Asset (GCA) days of 92 days in FY2021, 84 days in FY2020 and 65 days in FY2019, respectively. The working capital cycle 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 half-month in FY2021 (~ 14 days) as against 22 days in FY2020. The group's inventory levels remained moderate at 75 days as on March 31, 2021 vis-à-vis 63 days as on March 31, 2020 mainly due to the pandemic and management strategy to procure excess raw material at a cheaper rate during the year end. On the other hand, the group has demonstrated ability to promptly serve its creditors. The creditor payback period stands at 27 days as on 31st March, 2021 as against 7 days as on 31st March 2020. The creditors were elevated in the FY2021 on account of purchases of higher inventory during the financial year end. The comfortable working capital operations have led to moderate utilization of the bank lines at about an average of ~74 per cent for the last 8 months through November 2021.

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 80 percent 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. Also, the industry is vulnerable to outbreaks of diseases such as Bird flu, which could lead to a decline in sales volume and realizations of poultry players.

Acuité believes that the group's operating metrics is 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 risk to this industry includes release of greenhouse gases, utilization of excess water and water pollution as well as land and biodiversity loss. Energy conservation and 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 refining of edible oils. SG operates with the brand name "Sneha Fresh Chicken" for its retail poultry business. SFPL's board comprise of eight directors with three female directors while SFFPL's board has four directors with 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 organization, actual or suspected fraud or violation 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 towards rural development projects like education, drinking water, education and infrastructure.

Rating Sensitivities

Positive

- SG's ability to sustain its operating margin in range of 15-20 percent.
- Sustainable improvement in Profitability, Leverage and Solvency position of the group.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.
- Decline in operating profit margins below 7-8 percent.
- Any significant deterioration in Revenue profile and leverage position of the group.

Material Covenants

None

Liquidity Position: Strong

SG's liquidity is strong marked by healthy generation of net cash accruals in FY2021 to its maturing debt obligations, efficient working capital management and healthy level of unencumbered cash and bank balance. SG has generated cash accruals in the range of Rs.139.35-320.40 Cr during last three years ending FY2021 as against its long term debt obligations in the range of Rs.72.44-81.31 Cr for the same period. SG's working capital is efficient as evident from Gross Current Asset (GCA) of 92 days as on March, 2021 as compared to 84 days as on March, 2020. The current ratio stood at 1.23 times as on 31 March 31 2021 against 1.09 times in previous year. SG maintained unencumbered cash and bank balances of Rs.59.32 Cr as on March 31 2021 against Rs.5.08 Cr in previous year. Further, SG has deposit with bank of Rs.34.25 Cr. The total working capital limit remained moderately utilized at an average of nearly 74 per cent for the 8 months ending November, 2021. The liquidity profile of SG is expected to further improve on account of ongoing enhancement proposals with the respective financial institutions. Acuité believes that the liquidity of SG to remain adequate on account of growing scale of operations and healthy capital structure. SG is expected to generate adequate NCAs in the range of Rs.300-370 Cr. against modest CPLTD of Rs.65-105 Cr over the medium term.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	3441.10	3045.29
PAT	Rs. Cr.	263.94	95.84
PAT Margin	(%)	7.67	3.15
Total Debt/Tangible Net Worth	Times	0.77	1.19
PBDIT/Interest	Times	8.16	3.19

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

Not Applicable

Any Other Information

None

Applicable Criteria

- 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>
- 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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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
08 Feb 2021	Cash Credit	Long Term	70.00	ACUITE A Stable (Reaffirmed)
13 Jan 2021	Cash Credit	Long Term	70.00	ACUITE A Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A+ Stable Upgraded (from ACUITE A)
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A+ Stable Assigned

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About Acuité Ratings & Research

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