



Press Release
Sneha Foods & Feeds Private Limited
November 07, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE A+ Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	100.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating to '**ACUITE A+ (read as ACUITE A plus)**' on the Rs.100.00 Cr bank facilities of Sneha Foods and Feeds Private Limited (SFFPL). Outlook is '**Stable**'.

Rationale for rating reaffirmation:

The reaffirmation of ratings considers the improvement in operational and financial performance of the group during FY23. The group generated a turnover of Rs. 4,985.27Cr (Prov.) against Rs. 4,698.40Cr in FY2022 implying a growth of 6 percent. Operating margin has declined to 8.20 percent during the year on account of low realisations during the last quarter. However, during the Q1FY24 realizations have improved resulting in revenue of ~Rs.1267Cr and EBITDA margin of ~22 percent.

Further, the group's ongoing capex of around ~Rs.450Cr towards value addition project "Snackster" and expansion of feed plant, environmentally controlled (EC) farms will be capitalised in current year and is expected to contribute additional 10-15 percent in the group's revenue over the near to medium term. Furthermore, the group is also undertaking another capex of Rs.309Cr towards installation of new solvent extraction plant under the entity "Sneha Gold Proteins Private Limited" and Rs.188Cr towards further expansion of EC farms, feed plants capacity and enhancing silos storage is expected to further strengthen the group's backend operations albeit persisting execution risk. Also despite the ongoing debt funded capex plans, the financial risk profile of the group remained healthy in FY23 with healthy networth, gearing and moderate debt protection metrics and is expected to remain healthy over the medium term.

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 Sneha Group (SG). 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

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 Sneha Foods and Feeds Private Limited (SFFPL) in 2008. SFFPL is in the business of soy edible oil extraction, with an installed capacity of 750 tonnes per day. Considering the increasing need for feed, the group is currently constructing a new solvent extraction plant under the name of Sneha Gold Proteins Private Limited. 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. SG has acquired Singh Poultry Private Limited (SPPL) a Hyderabad based company engaged in brooding, growing, laying of hatching eggs and sale of one-day old broiler chicks and was established in 1976. The company was previously owned by Mr. Komatreddy Venkat Reddy SPPL has a breeding capacity of 1 lakh breeders. Sneha Farms Private Limited has acquired SPPL during May, 2023 With this acquisition SFPL has further addition of capacity by 1 lakh breeder birds.

Unsupported Rating

Not Applicable

Analytical Approach

Extent of Consolidation

- Full Consolidation

Rationale for Consolidation or Parent / Group / Govt. Support

Acuite has consolidated the business risk and financial risk profile of Sneha Farms Private Limited (SFPL), Sneha Foods and Feeds Private Limited (SFFPL), Sneha Gold Proteins Private Limited (SGPPL) and Singh Poultry Private Limited (SPPL). to arrive at the rating. The consolidation is in view of common management, fully integrated group, significant intercompany transactions. The group herein referred 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. Acuite 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 revenue has grown with a Compounded annual growth rate (CAGR) of 13

percent during past 3 years. The group has reported revenue of Rs.4985.27Cr in FY23(Prov.) against Rs.4698.40Cr of previous year. Further the group has sustained similar growth in revenue during the first 6 months of FY24. SFPL on a standalone basis has reported revenue of ~Rs.1267Cr while SFFPL has registered sales of ~Rs.613Cr for the same period. 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's EBITDA margin has been declining over the past 3 years. During FY23 the group has reported EBITDA margin of 8.20 percent which was declined from 11.62 percent in FY22. This decline in operational margins is due to an increase in raw material costs of soy seeds, maize, etc. used for feed production and lower price realisation of end products in the last quarter of FY2023. Due to the market-driven nature of product pricing and their perishable nature, bargaining power in terms of product pricing gets restricted. However as per the Q1FY24 figures the group's EBITDA margins stood at ~22 percent. The operating margins are expected to moderate but remain stable and higher than industry average i.e. in the range of 10–12 percent over the medium term on account cyclical nature of the industry and vertically integrated business model of the group.

Healthy financial risk profile:

Financial risk profile of the group is healthy marked by healthy network, capital structure and gearing level. The net worth of the group stood at Rs.1422.83 Cr as on 31 March, 2023 (Prov.) against Rs.1191.47Cr of previous year. The improvement is primarily on account of accretion of net profit to the reserves during the period. The group has healthy gearing level (debt-equity) at 0.69 times as on 31 March, 2023(prov.) against 0.59 times as on 31 March, 2022. Debt protection metrics of the company are healthy with Interest coverage ratio and debt service coverage ratio at 6.07 times and 2.57 times respectively as on March 31, 2023 (Prov.) against 9.95 times and 3.42 times respectively in previous year. Total outside liabilities to tangible net worth stood at 0.94 times as on March 31, 2023 (Prov.) as against 0.87 times of previous year. Debt to EBITDA has deteriorated marginally to 2.25 times as on March 31, 2023 (Prov.) against 1.24 times as on March 31, 2022. The deterioration was on account of infusion of debt towards capex and also towards ongoing project in SGPPL.

Total debt as on March 31, 2023(Prov.) consists of long term debt of Rs.238.54Cr and short term fund based limits of Rs.647.07Cr. The consortium of banks has sanctioned enhancement in fund based working capital limits from existing limits of Rs.700Cr to Rs.1000Cr and planned debt funded capex might result in slight deterioration in Debt to EBITDA in the medium term.

Efficient working capital operations:

SG group's working capital operations are efficiently managed which is evident from the Gross Current Assets (GCA) days of 88 in FY23 (Prov.) 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 material like Maize, Soy seeds and biological assets like Day old chicks, hatching eggs, eggs, broilers, layers. As on March 31, 2023 (prov.) the biological assets value is at Rs.412Cr. The huge value of inventory maintenance has led to high utilization of fund based working capital limits which were utilized at an average of ~82 percent during past 12 months ending August, 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.

All Covenants

Not Available

Liquidity Position: Strong

Liquidity position of the group is strong marked by healthy generation of NCA's against its maturing debt obligations. Sneha group (SG) has generated Net cash accruals (NCA) of Rs.295.78Cr during FY23 (Prov.) against its debt obligation of Rs.70.31Cr for the same period. Further the group has unencumbered cash and bank balances of Rs.13.64Cr providing additional comfort towards liquidity. The working capital limits are highly utilized at an average of 82 percent over the past 12 month ending August, 2023. Going forward the group's liquidity position is expected to be strong on account of growing scale of operations and healthy capital structure. The cash accruals of the group are estimated to remain around Rs.340 to 400 Cr during 2024-26 while its repayment obligation are estimated to be around Rs. 80 to 110 Cr for the same period.

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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	4985.27	4698.40
PAT	Rs. Cr.	217.21	323.31
PAT Margin	(%)	4.36	6.88
Total Debt/Tangible Net Worth	Times	0.69	0.59
PBDIT/Interest	Times	6.07	9.95

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>
- 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>

Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuite 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
01 Jun 2023	Cash Credit	Long Term	50.00	ACUITE A+ Stable (Reaffirmed)
	Cash Credit	Long Term	50.00	ACUITE A+ Stable (Reaffirmed)
03 Mar 2022	Cash Credit	Long Term	30.00	ACUITE A+ Stable (Assigned)
	Cash Credit	Long Term	70.00	ACUITE A+ Stable (Upgraded from ACUITE A Stable)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A+ Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A+ Stable Reaffirmed

*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt Support)

- Sneha Farms Private Limited.
- Sneha Foods and Feeds Private Limited.
- Sneha Gold Proteins Private Limited.
- Singh Poultry Private Limited.

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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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