

Press Release

Singh Poultry Private Limited

May 03, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned a long term rating of '**ACUITE BB-**' (read as **ACUITE Double B 'Minus'**) on the Rs.25.00 Cr bank facilities of Singh Poultry Private Limited (SPPL). The outlook is '**Stable**'.

About the Company

Incorporated in August 1976 and based in Hyderabad (Telangana), Singh Poultry Private Limited (SPPL), was incorporated and promoted by Mr. Harbans Singh. On account of business takeover in September 2020 and on-going process of change in ownership pattern, currently, the company is managed and promoted by Dr. Surya Pavan Reddy Komatireddy (Managing director) and Mr. Venkat Reddy Komatireddy (Director). SPPL is engaged in the business of brooding, growing, laying of hatching eggs and sale of one-day old broiler chicks. The company has 1 brooding and growing farm at Mailardevpally, further has 2 laying farms at Athvelly and 1 laying farm at Kompally.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the Singh Poultry Private Limited (SPPL) to arrive at this rating.

Key Rating Drivers

Strengths

• Promoters' extensive experience in the Indian poultry industry; established track record of operations

SPPL is a closely-held company with Mr. Amarjyot Singh, Dr. Surya Pavan Reddy Komatireddy and Mr. Venkat Reddy Komatireddy as the current directors of the company. Mr. Singh has been part of the day-to-day operations of the company since its inception in 1970's, gaining more than 35 years of experience in the industry. Dr. Surya Pavan Reddy Komatireddy, managing director of SPPL, is a top Diabetologist in Hyderabad and prior to his venture in Indian poultry industry, he has gained intensive experience in Indian automobile industry, Infrastructure development and construction industry. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The key supplier of the company is Venkateshwara Hatcheries, a market leader in the poultry industry. The key customers of the company include reputed names like Roy Hatcheries, Sneha Farms, Venkateshwara group amongst others with no major concentration in revenue. The products offered by the company are well recognized in the market and are known by "Vencobb by Singh Poultry" brand name. Further, the operations of the company are strengthened by the presence of strong line of mid-level managers. Acuite believes that SPPL will continue to derive benefits from its experienced management and established presence and track record of operations over the medium term.

• Low customer and supplier concentration risk in revenue profile

SPPL have been successfully able to increase its geographical coverage by dealing with customers from various states, namely Telangana, Andhra Pradesh, Maharashtra, Assam, West Bengal and Bihar. None of the single customer of SPPL has contributed more than 20 percent to the total sales of the company. The top 15 customers of both major products i.e. Hatchling eggs and Day-old broiler chicks contributes around 30-40 percent each to the total operating income of the company. The current suppliers are associated with the operations of the company for more than 5 years now. None of the single supplier of SPPL contributed more than 20 percent to the total purchases of the company. Acuite believes that SPPL has low risk towards its revenue profile in terms of geographical, customer and supplier concentration.

- **Growing demand in Indian Poultry Industry; Growth drivers for the industry**

The Indian poultry market, consisting of broilers and eggs reached a worth of INR 1,988 Billion in 2020. India today is that one among the world's largest producer of eggs and broiler meat. Increasing incomes coupled by changing food habits, growth in the food services market, growth in the bakery foods market and growth in per capita income is shifting consumer preferences from cereals to fruits, vegetables, dairy and meat are acting as drivers in the growth of the Indian poultry industry. Acuite believes that the company's revenue is expected to show traction post FY2021 with increasing demand in the industry.

Weaknesses

- **Below-average financial risk profile; adverse impact of Covid-19 on financial metrics**

SPPL has negative gearing of (8.03) times as on March, 2020 against 1.65 times as on previous year. The gearing has been deteriorating over the years due to increase in the debt obligations. Networth has turned negative and stands at Rs.0.22 Cr due to the net loss recorded by the company of amount Rs.7.79 Cr in FY2020. Gearing ratio of the company is expected to deteriorate substantially in FY2021 due to rise in additional borrowings as proposed by the management. SPPL's working capital is moderately managed as is reflected by its gross current asset (GCA) days of around 175 days as on March 31, 2020. The company maintains inventory of around 140-170 days. SPPL extends a credit period of around 1-2 days to its customers and realizes payments within the same period. On the other hand, the company gets 20-30 days credit from its suppliers. As a result, the reliance on working capital limits is high, leading to high utilization of its bank lines at an average of 92 percent over the last 12 months through February 2021. SPPL's debt protection metrics are below average marked by interest coverage and Net cash accruals to total debt (NCATD) of (3.00) times and (0.33) times in FY2020 against 2.17 times and 0.14 times as on previous financial year.

SPPL's operating income in FY2020 fell by 19.16 percent to Rs.20.05 Cr from Rs.24.81 Cr in FY2019 on account of lower realization on hatchling eggs and broiler chicks due to impact of COVID-19 pandemic. Further to the revenue generation ability, EBITDA margin for the FY2020 also has deteriorated and lead to negative operating profit for the financial year of (18.67) percent vis-v-vis 10.28 percent in FY2019. As per the audited financials provided by the company as of December 31, 2020, SPPL under the new management and positive demand in industry has been able to witness improvement in the realization per unit of the hatchling eggs and broiler chicks. The operating income of SPPL as of December 31, 2020 was recorded at Rs.23.17 Cr with positive net profit at Rs.4.94 Cr. Acuite expects the financial risk profile to improve from below average to moderate over the medium term on account of improvement in revenue profile of the company.

- **Modest scale of operations**

The scale of operations of the firm stood modest with stable operating revenue in the range of Rs.20 -25 Cr through the last 3 years from FY2018-2020. Although, the operating income for the period of April, 2020 to January, 2021 registered is ~Rs.25.55 Cr. This is on account of improvement in realisations per unit and change in management in current FY. Acuite believes that the firm will generate additional revenues on the back of positive demand in industry and change in approach of new management.

- **Exposure to intense competition and to risks inherent in the industry**

The company faces intense competition from organized as well as unorganized players catering to regional demands. Furthermore, the poultry industry is driven by regional demand-and-supply factors because of transportation constraints and the perishable nature of the products. Low capital intensity and entry barriers facilitate the entry of players in the unorganized segment. 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. Acuite believes that the company's operating metrics is susceptible to intense competition and inherent risks in the poultry industry.

Liquidity Position: Adequate

The company's liquidity is adequate marked by low unencumbered cash and bank balance, low current ratio and lower generation of net cash accruals in FY2019-20 to its maturing debt obligations. The company has generated cash accruals in the range of Rs.(5.47)-1.73 Cr during last 3 years ending FY2020 as against its long term debt obligations of Rs.1.56-2.09 Cr for the same duration of period. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 175 days as on March, 2020 as compared to 160 days as on March, 2019. The Current ratio and Debt service coverage ratio as on March 31, 2020 stood at level of 0.63 times and (1.27) times, respectively and the fund based cash credit limit remains utilised at 90-92 per cent over the 12 months ended February, 2021. The company maintains unencumbered cash and bank balances of Rs.0.08 Cr as on 31 March 31 2020. Acuite believes that the liquidity of the company is likely to improve over the medium term on account of improvement in realization per unit on the products offered by the company. The company is expected to generate NCA in range of Rs.4.40-5.7 Cr against maturing debt obligations in range of Rs.1.60-3.50 Cr over the medium term. Any shortfall in its repayment obligations are to be met through reliance on promoter fund support in form of unsecured loans.

Rating Sensitivities**Positive**

- Significant improvement in scale of operations
- SSPL's ability to sustain its operating margin in range of 25-30 percent.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.
- 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 10-15 percent.
- Any deterioration in Revenue profile and leverage position of the company.

Outlook: Stable

Acuite believes that SSPL will continue to benefit over the medium term on account of long track record of operations and experienced management in the industry. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SSPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	20.05	24.81
PAT	Rs. Cr.	(7.79)	(0.86)
PAT Margin	(%)	(38.82)	(3.47)
Total Debt/Tangible Net Worth	Times	(9.48)	1.87
PBDIT/Interest	Times	(3.00)	2.17

For the period Q3FY2021, SPPL, has reported a profit after tax (PAT) of Rs.4.94 Cr on total operating income of Rs.23.17 Cr.

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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
Term Loan	23-02-2017	9.75%	04-09-2022	0.82	ACUITE BB-/Stable (Assigned)
Term Loan	01-09-2017	9.75%	04-03-2023	1.85	ACUITE BB-/Stable (Assigned)
Term Loan	24-04-2020	9.25%	04-11-2021	1.06	ACUITE BB-/Stable (Assigned)
Working Capital Term Loan	06-08-2020	8.25%	07-07-2024	2.04	ACUITE BB-/Stable (Assigned)
Cash Credit	29-05-2019	9.25%	Not Available	7.00	ACUITE BB-/Stable (Assigned)
Proposed Term Loan Bank facility	Not Available	Not Available	Not Available	7.23	ACUITE BB-/Stable (Assigned)
Proposed Cash Credit Bank facility	Not Available	Not Available	Not Available	5.00	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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