

Press Release

Sneha Gold Proteins Private Limited

August 17, 2022

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	175.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	175.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its a long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs. 175 Cr. bank facilities of **SNEHA GOLD PROTEINS PRIVATE LIMITED** (SGPPL). The outlook is '**Stable**'.

About the Company

Hyderabad-based, Sneha Gold Proteins Private Limited (SGPPL) is incorporated in October, 2021. The company has proposed to construct Soya Solvent Extraction Plant with a capacity of 750TPD with Refinery having a capacity of 100TPD for manufacturing of Soya DOC and Soya Oil. Mr. Ram Reddy Dendi and Mr. Vaibhav Reddy Papireddy are the directors of the company.

About the Group

Hyderabad-based, Sneha Farms Private Limited (SFPL) parent company of Sneha Gold Proteins Private Limited was incorporated in 1994 by Mr. D Ram Reddy, Mr. Gopal Reddy and Mrs. Anuradha. 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".

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 Soya edible oil extraction with the installed capacity of 750 Tons Per Day (TPD). 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 the regional restaurants.

Analytical Approach

Acuite has considered the standalone approach while assessing the business and financial

risk profile of SGPPL and with a notch up based on support from Parent Company Sneha Farms Private Limited (SFPL) has factored in financial, operational and managerial support by virtue of being a wholly owned subsidiary of the SFPL. The rating factors in the 100 percent holding of SFPL and offered Corporate Guarantee to the debt availed by SGPPL.

Key Rating Drivers

Strengths

Established track record of group operations and well-integrated presence across the value chain

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. Sneha Group has long relationships with a large number of contract farmers, has access to latest technology in poultry breeding and established in-house feed production capabilities. Further in addition to the poultry business, the group has continuously diversified their business into various streams over the years, the group's current activities include broiler breeding, hatching eggs, day-old broiler chicks, commercial broiler, broiler chicken retail and wholesale outlets, chicken processing, poultry and fish feed, edible oil, soya solvent extraction and de-oiled rice bran extraction. 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. Currently the Sneha Group has 4100 TPD poultry feed manufacturing capacity, 36.63 lakh broiler bird own farms capacity, 200 lakh birds integrated farm capacity, 7.50 lakhs parent farms capacity, 10 lakh hatching eggs per week capacity, 12000 birds per hour birds processing capacity, 300 TPD DORB capacity, 100+ retail shops, 350 TPD fish feed and 750 TPD Soya DOC manufacturing capacity and the group is currently selling more than 4000 tonnes of soya oil per month. The flag ship company of Sneha Group i.e. Sneha Farms Pvt. Ltd. has achieved a revenue of Rs.4335.15 Cr for the financial year ended 31st March, 2022, driven by a consistent expansion of capacities and increasing market penetration across the country.

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. 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.

Strategically important to the Sneha Group and Material cost savings expected due to increasing backward integration

The company is strategically important to the Sneha Group for its poultry segment operations. Sneha Farms Private Limited ACUTE A+ Stable/ACUTE A1 is Flagship Company of Sneha Group, holds 100% shares in SGPPL. The main raw material required in poultry farms is feed, which accounts for the major cost, with others being the cost of day-old chicks, medicines etc. The major portion of the Group's poultry feed requirement is met internally, enabling it to have a better control on the quality, availability and prices of the feed. The Group has a favourable feed conversion ratio, which is a critical parameter for profitability in the poultry business. The Group has existing soya extraction plant with a total production capacity of 750 tonnes per day (TPD) with refinery unit having a capacity of 150 tonnes per day (TPD) for manufacturing of Soya De Oiled Cake (DOC) and Soya Oil, which would manufacture de-oiled cakes (DOCs) for the Group's in-house consumption. The soya extraction plant is expected to produce better quality soya DOC, will aid margin expansion and lend flexibility in inventory holding given the higher shelf life of raw material (soyabean) than DOCs. SGPPL enjoys strong tangible support from the parent as reflected by infusion of equity/unsecured loans of Rs.9.18 Cr as of June 2022. Acuité, SGPPL's new capacity expansion is essential for the parent to expand its business.

Weaknesses

Project execution and stabilisation risk associated with the on-going debt funded capital expenditure

SGPPL has embarked upon a large capex of around Rs. 198.61 Cr for construction of Soya solvent extraction plant having a capacity of tonnes per day (TPD) with refinery unit having a capacity of 100 tonnes per day (TPD) for manufacturing of Soya De Oiled Cake (DOC) and Soya Oil. The entire capex is scheduled to be concluded by March, 2024 and expected Commercial operations date (COD) is September 01, 2024. The capex is being funded by term loans of around Rs. 165 Cr and the balance through equity/unsecured loans from its parent company. The project is at its nascent stage with financial closure is achieved recently. However, the track record of the group and promoters are expected to enable the company to complete the said project within the envisaged timelines and cost. Demand risk is partly mitigated by current capacity being utilised fully and steady demand. Ability of the company to swiftly ramp up new capacities while maintaining operating margin will be a rating monitorable. Acuité believes that material cost savings expected from the ongoing capex are likely to result in healthy cash accruals, going forward, positively impacting the Group's overall credit profile.

Inherent risk in poultry business

The Group, like other entities in the poultry and related businesses, is exposed to the inherent industry risk of disease outbreaks (bird flu or avian influenza). However, Acuité believes that various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent. Further, the poultry industry is fragmented with intense competition leading to pressure on pricing and margins. As inherent in the industry, the broiler production cost and realisations vary considerably across geographies and are impacted by the seasonality as well as local supply dynamics. However, the movement in feed prices generally follows similar trends across geographies. Volatility in broiler realisations, due to the seasonal nature of demand of poultry products in India, has a bearing on the profitability of all integrators and keep the same volatile.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

Timely completion of project and commencement of commercial operations without significant cost overruns.

Material covenants

None

Liquidity position: Stretched

SGPPL, being a project-stage company, operations will commence only in FY2025. As for the project, the company is expected to incur Rs. 198.61 Cr for plant construction, of which Rs. 165 is likely to be funded through term loan and ~Rs. 33.61 Cr will be funded through equity contribution (Rs. 9.18 Cr infused as on June 30, 2022). The financial closure of the term loan is pending, although the presence of an in-principle sanction letter (which will be converted into final sanction post satisfactory of certain conditions) lends comfort. Timely financial closure and infusion of the aforesaid equity, and timely completion of the project without any significant debt-funded cost overruns, would be the key rating sensitivities. Further, the debt availed for the project has a moratorium of 2 years, thereby providing sufficient time for operations to stabilize before repayments commence. The company's repayments are anticipated tenure of the term loans is around 7 years post moratorium and expected to commence from FY2025 based on the in-principle sanction letter. Acuité expects SGPPL to be able to meet its near-term Commitments through fresh capital from the promoter group on a need basis.

Outlook: Stable

Acuité believes that SGPPL will maintain a 'Stable' credit profile over the medium term on the back of support from SFPL. The outlook may be revised to 'Positive' if it completes the construction and commences the operations of within the expected timelines without any significant debt-funded cost overruns. Conversely, the outlook may be revised to 'Negative' in case of delay in commencement of commercial operations and slower than expected pick up in revenues affecting its debt servicing ability or deterioration in the credit profile of SFPL and/or inadequate/lack of timely funding support from the Parent Company or Pressure on the Sneha Group's ratings may arise from any sharp deterioration in profits and/or larger than expected debt-funded capital expenditure, adversely impacting the credit profile of the Group.

Other Factors affecting Rating

Not Applicable

About the Rated Entity - Key Financials

Not Applicable-SGPPL, being a project-stage company and operations are expected to commence only in Q3FY2025.

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 Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Group And Parent Support: <https://www.acuite.in/view-rating-criteria-47.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	175.00	ACUITE BBB- Stable Assigned

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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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