

Press Release
SENTHIL HATCHERIES
February 28, 2024
Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Shc Rating
Bank Loan Ratings	64.30	ACUITE BB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	64.30	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.64.30 Cr. bank facilities of Senthil Hatcheries (SH). The outlook is '**Stable**'.

Rationale for the rating

The rating assigned factors in the long operational track record of the firm and experience of the promoters in the poultry business. The rating also factors in the steady scale of operations and adequate liquidity position. However, these strengths are partially offset by thin and declining profitability margins, though some improvement witnessed in the H1FY24, moderate working capital management, below average financial risk profile and inherent risk in the poultry business.

About the Company

Established in 1992, Senthil Hatcheries is a family-owned partnership firm based in Palladam, Tamil Nadu. Partners of the firm are K. Palanisamy, M.K. Duraisamy, K. Ramasamy, P. Saravana Prakash, D. Sathiya Prakash and R. Arun Prashath. The firm is engaged in Layer Poultry operations and Broiler Poultry operations. The firm has its own breeder unit with 50 acres of agricultural land at Palladam with a present capacity of 1 Lakh Layers or 1.6 Lakh of Breeder Birds. The Hatchery unit of the firm is located at Muthandipalayam village and the feed mill is located at Palladam with the production capacity of 15 tonnes per hour mash feed and 12-14 tons per hour pellet feed plant. The firm also has a captive windmill of 1.50 MW.

Unsupported Rating

Not applicable.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SH to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and experienced management

The partners of the firm have around two decades of experience in the poultry industry. The firm was established in 1992 and was gradually expanded to the present total capacity of 3,00,000 birds at its plant in Andhra Pradesh. It buys day old chicks from Venkateswara Hatcheries Private Limited, make their own feed and sell birds/chicks in the live bird's market. Acuite believes the long operational track record of the firm and experience of the partners shall support the business risk profile to an extent in the near to medium term.

Improving scale of operations however declining profitability margins

The operating income has been improving steadily over the year with Rs. 269.06 Cr in FY2023 as against Rs.225.46 Cr in FY2022. Further, the firm has achieved a revenue of Rs.180.54 Cr in the H1FY24. However, the operating margin declined to 2.07 per cent in FY2023 as against 3.14 per cent in FY2022 due to increased material cost and other manufacturing expenses. On the back of deteriorating EBITDA margin, PAT margin also declined to 0.34 per cent in FY2023 as against 1.05 per cent in FY2022. Nevertheless, the firm has registered an improvement in the profitability margins with an EBITDA margin of 5.51 per cent in H1FY24. Sustenance of the scale of operations along with significant improvement in the profitability margins will remain a key rating sensitivity.

Weaknesses

Below average financial risk profile

The firm's financial risk profile is below average marked by moderate net worth base, high gearing and moderate debt protection metrics. The tangible net worth of the firm increased to Rs.24.47 Cr as on March 31, 2023 from Rs.14.76 Cr as on March 31, 2022 due to infusion of capital by partners. Acuite has considered an unsecured loan of Rs.8.65 Cr as on March 31, 2023 as Quasi-Equity as the bank's sanction letter stipulates that the said amount shall be subordinated to the bank loan and shall not be repaid during the loan tenure. Gearing of the firm stood high at 2.60 times as on March 31, 2023 as against 2.62 times as on March 31, 2022. Moreover, the moderate debt protection metrics is marked by Interest coverage Ratio of 1.69 times as on March 31, 2023 as against 2.54 times as on March 31, 2022; and Debt Service Coverage Ratio at 1.10 times as on March 31, 2023 as against 2.17 times as on March 31, 2022. The Total Outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.78 times as on March 31, 2023 as against 4.83 times as on March 31, 2022. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.03 times as on March 31, 2023 as against 0.08 times as on March 31, 2022.

Acuite believes that going forward the financial risk profile of the firm is likely to be sustained backed by steady accruals and no major debt funded capex plans.

Working capital intensive nature of operations

The firm has a working capital-intensive nature of operations marked by increased GCA days of 116 days in FY2023 as against 99 days in FY2022 on account of increase in inventory holding period. The inventory period increased to 95 days in FY2023 as against 78 days in FY2022. However, the debtor collection period stood comfortable at 12 days in FY2023 as against 11 days in FY2022.

Acuite believes that the working capital operations of the firm is likely to remain almost at the same levels as evident from efficient collection mechanism and high inventory holding period over the medium term.

Exposure to intense competition and to risks inherent in the industry

The firm faces intense competition from organised as well as unorganised 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 unorganised segment. Also, the industry is vulnerable to outbreaks of diseases, which could lead to a decline in sales volume and realisations of poultry players.

Risk of capital withdrawal associated with partnership nature

Senthil Hatcheries was established as a partnership firm in 1992. Any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Improvement in the scale of operations
- Significant improvement in the profitability margin
- Further elongation in working capital cycle

Liquidity Position

Adequate

The firm has an adequate liquidity position marked by Net Cash Accruals of Rs.2.02 Cr as on March 31, 2023 as against current maturities of long-term debt of Rs.1.52 Cr. Further, the firm is expected to generate sufficient net cash accruals to repay its debt obligation in near to medium term. The fund-based limits remained moderately utilised at ~81 per cent for the last five months ended December'23. The current ratio stood moderate at 1.27 times as on March 31, 2023. The cash and bank balance stood at Rs.0.44 Cr as on March 31, 2023. However, the working capital intensive nature of operations of the firm is marked by GCA days of 116 days in FY2023 as against 99 days in FY2022.

Acuité believes that going forward the firm is likely to maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on SH will remain 'Stable' over the medium term on account of experienced management and steady scale of operations. The outlook may be revised to 'Positive' in case the company registers any significant improvement in its scale of operations or profitability margins or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity position or further deterioration in the profitability margins or deterioration in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	269.06	225.46
PAT	Rs. Cr.	0.91	2.37
PAT Margin	(%)	0.34	1.05
Total Debt/Tangible Net Worth	Times	2.60	2.62
PBDIT/Interest	Times	1.69	2.54

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

None.

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>

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 :

Not applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
City Union Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	35.00	ACUITE BB Stable Assigned
Federal Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE BB Stable Assigned
Federal Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BB Stable Assigned
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.22	ACUITE BB Stable Assigned
Federal Bank	Not avl. / Not appl.	Term Loan	10 Nov 2023	Not avl. / Not appl.	10 Aug 2030	Simple	3.98	ACUITE BB Stable Assigned
City Union Bank Ltd	Not avl. / Not appl.	Term Loan	18 Dec 2021	Not avl. / Not appl.	29 Nov 2026	Simple	6.34	ACUITE BB Stable Assigned
City Union Bank Ltd	Not avl. / Not appl.	Term Loan	29 May 2022	Not avl. / Not appl.	04 Aug 2027	Simple	1.76	ACUITE BB Stable Assigned

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About Acuité Ratings & Research

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