Press Release
SENTHIL HATCHERIES
May 05, 2025
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	64.30	ACUITE BB+ | Stable | Upgraded	-
Total Outstanding Quantum (Rs. Cr)	64.30	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has upgraded its long-term rating to **'ACUITE BB+' (read as ACUITE double B plus**f**)**rom **'ACUITE BB' (read as ACUITE double B)**on Rs. 64.30 Cr. bank facilities of Senthil Hatcheries (SH). The outlook is **'Stable'**.

Rationale for rating upgrade
The rating upgradation takes into consideration the improvement in the operating performance in FY24 supported by increase in the capacities and efficiency of operations. The rating also factors the upcoming backward integration capex of soyabean meal which is expected to further improve its operating profitability. The rating draws comfort from extensive experience of the management in the poultry farming business and focus on business expansions. However, the rating is constrained due to below average financial risk profile on account debt raised for capex and acquisitions in FY24, expected to improve over the medium term on the back of increasing cash accruals. Moreover, the working capital operations remain intensive owing to maintenance of high inventory levels. The firm also remains susceptible to inherent risks in the poultry farming business and risk of capital withdrawal owing to partnership nature.

About the Company

Established in 1992, Senthil Hatcheries is a family-owned partnership firm based in Palladam, Tamil Nadu. The firm is engaged in layer and broiler poultry operations. The firm has its own breeder unit with 50 acres of agricultural land at Palladam with a present capacity of 1.80 lakh breeder birds. The hatchery unit of the firm is located at Muthandipalayam, Tamil Nadu and the feed mill is located at Palladam with the processing capacity of 15 tons per hour for mash feed and 12-14 tons per hour for pellet feed plants. The firm also has a captive windmill of 1.50 MW. The partners of the firm are K. Palanisamy, M.K. Duraisamy, K. Ramasamy, P. Saravana Prakash, D. Sathiya Prakash and R. Arun Prashath.

Unsupported Rating
Not Applicable

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Senthil Hatcheries to arrive at the rating.

Key Rating Drivers

Strengths

Long track record of operations and continuous focus on business expansion

The firm is an established player since 1992 and has gradually expanded its breeding capacity to 1.80 lakh birds. Since 1978, the partners of the firm are engaged in the poultry farming business which highlights adequate experience in the business and enabled it to successfully establish strong relationships with its suppliers and customers. Further, the firm benefits from its integrated operations with its in-house feed processing unit. Also, in FY24, the firm built an in-house laboratory at a cost of Rs. 1.30 Cr. (funded through internal cash accruals) in order to keep track on the bird's health conditions, nutritional requirements and vaccinate them accordingly. It also acquired shareholding in an adjacent hatchery in FY24 for Rs 9 Cr. (funded through debt and internal accruals) which resulted in an increase in its capacity by 20,000 breeder birds. The firm has also recently entered the retail market with seven poultry shops and has other multiple small production plants at different locations in order to avoid the loss of birds while in transit. Additionally, the firm plans to increase their breeding capacity to 1.95 lakh breeder birds with an estimated cost of ~Rs. 3 Cr. in the fiscal 2026. The firm also plans for setting up of a backward integration plant for the soyabean meal and oil which is used in the manufacturing of mash and pellet feed, at an estimated cost of Rs. 5.5 Cr. and expects the commencement of operations in October' 2025. Moreover, both the capex plans shall be funded through a mix of debt and internal accruals and the debt tie-up is under process.

Improvement in operating performance owing to increase in the breeding capacity
The operating revenue of the firm improved by ~30% y-o-y in FY24 and stood at Rs. 351.49 Cr. in FY24 as compared to Rs. 269.06 Cr. in FY23 owing to increased capacity and better resource utilisation. The geographical revenue mix includes ~40 percent of sales from Chennai market, ~20 percent from Madurai market and remaining through the local sales. Further, the firm has achieved a revenue of Rs. 360.06 Cr. in FY25. Also, the firm's operating margin have reflected marginal growth to 2.87 percent in FY24 as against 2.07 percent in FY23, majorly owing to the reduction in the input costs. The firm's net profitability stood improved at 0.87 percent in FY24 as against 0.34 percent in FY23.

Weaknesses

Moderately intensive working capital operations owing to requirement of higher inventory levels
The firm has a moderately intensive working capital operation marked by high gross current assets (GCA) of 119 days in FY24 (116 days in FY23) which is mainly driven by higher inventory period which stood at 100 days in FY24 (95 days in FY23). The firm maintains higher inventory levels in order to mitigate the price fluctuation risk of the raw materials and it takes an average of 6-8 weeks for the chicks to develop into healthy bird. Further, the average debtor period stood comfortable at 13 days in FY24 (12 days in FY23) and the average creditor period stood at 36 days in FY24 (45 days in FY23).

Below average financial risk profile
The firm's financial risk profile is marked below average owing to low net worth of Rs. 29.13 Cr. as on March 31, 2024 (Rs. 24.47 Cr. as on March 31, 2023). Further, the gearing (including unsecured loans of Rs. 8.65 Cr. classified as quasi equity) of the firm stood high at 3.29 times as on March 31, 2024 as against 2.60 times as on March 31, 2023 owing to increase in long term debt levels and unsecured loans from promoters to fund capex and short-term borrowings to meet working capital requirements. Moreover, the debt protection metrics is marked moderate by interest coverage ratio of 2.06 times in FY24 (1.69 times in FY23) and debt service coverage ratio of 1.25 times in FY24 (1.10 times in FY23). Further, in FY25, the firm has refinanced their debt to the extent of Rs. 4 Cr. and has also repaid its existing term loan of Rs. 8 Cr., which is estimated to have marginally improved the financial risk profile. Going forward, the financial risk profile is expected to improve further on the back of increasing cash accruals.

Exposure to intense competition and 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, however, after setting-up the in-house laboratory, the firm is able to track the bird's health and nutritional requirements on a timely basis.

Risk of capital withdrawal associated with partnership nature
Senthil Hatcheries' constitution as a partnership firm is exposed to discrete risks, including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-a-vis a limited company.
Acuité believes that any substantial withdrawal of capital by the partners is likely to have an adverse impact on the capital structure.

Rating Sensitivities

- Significant growth scale of operations and profitability margin
- Further elongation in working capital cycle affecting the liquidity profile
- Deterioration in the financial risk profile due to significant debt funded capex or inadequate cash

accrual generations

Liquidity Position
Adequate

The firm has an adequate liquidity position marked by estimated net cash accruals of Rs. 5.13 Cr. as on March 31, 2025 as against maturing long-term debt obligations of Rs. 2.46 Cr. Further, the firm is expected to generate net cash accruals in the range of Rs. 5-7 Cr.to repay its debt obligation ranging around Rs. 2.5-4 Cr. for the period of FY26 & FY27. However, the average fund-based limits utilisation remained at 89.69 per cent for the last six months ended December'24. Further, the current ratio stood moderate at 1.41 times as on March 31, 2024. The cash and bank balance stood at Rs. 0.48 Cr. as on March 31, 2024.

Outlook: Stable

Other Factors affecting Rating
None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	351.49	269.06
PAT	Rs. Cr.	3.06	0.91
PAT Margin	(%)	0.87	0.34
Total Debt/Tangible Net Worth	Times	3.29	2.60
PBDIT/Interest	Times	2.06	1.69

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

Not Applicable

Interaction with Audit Committee anytime in the last 12 months (applicable for rated-listed / proposed to be listed debt securities being reviewed by Acuite)

Not applicable

Any other information

None

Applicable Criteria

• Default Recognition :- https://www.acuite.in/view-rating-criteria-52.htm
• Manufacturing Entities: 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, Acuité 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
28 Feb 2024	Term Loan	Long Term	1.76	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	35.00	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	6.34	ACUITE BB | Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	2.22	ACUITE BB | Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BB | Stable (Assigned)
	Term Loan	Long Term	3.98	ACUITE BB | Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
City Union Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	55.00	Simple	ACUITE BB+ | Stable | Upgraded (from ACUITE BB)
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	3.55	Simple	ACUITE BB+ | Stable | Upgraded (from ACUITE BB)
City Union Bank Ltd	Not avl. / Not appl.	Term Loan	18 Dec 2021	Not avl. / Not appl.	29 Nov 2026	4.38	Simple	ACUITE BB+ | Stable | Upgraded (from ACUITE BB)
City Union Bank Ltd	Not avl. / Not appl.	Term Loan	29 May 2022	Not avl. / Not appl.	04 Aug 2027	1.37	Simple	ACUITE BB+ | Stable | Upgraded (from ACUITE BB)

Contacts

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About Acuité Ratings & Research

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