

January 16, 2014

Facilities	Amount (Rs. Crore) Sanctioned Limits	Ratings
Term Loan – I	0.49	SMERA B+/ Stable (Assigned)
Term Loan - II	0.90	SMERA B+/ Stable (Assigned)
Cash Credit	4.00	SMERA B+/ Stable (Assigned)
Produce Term Loan	2.00	SMERA A4 (Assigned)
Short Term Loan	0.50	SMERA A4 (Assigned)

SMERA has assigned a long-term rating of '**SMERA B+**' (read as **SMERA single B plus**) and a short-term rating of '**SMERA A4**' (read as **SMERA A four**) to the Rs.7.89 crore bank facilities of Swathi Hatcheries (SH). The outlook is '**Stable**'. The ratings are constrained by the sharp decline in the firm's net cash accruals during FY2012–13 (refers to financial year, April 01 to March 31) amidst intense competition prevalent in the poultry farming industry. The ratings are also constrained by the firm's exposure to raw material price volatility and risk of outbreaks in poultry diseases. However, the rating derives comfort from the firm's moderate scale of operations, comfortable working capital cycle, moderate leverage, healthy coverage indicators and experienced management.

SH, established in 1990, is a Coimbatore-based firm engaged in poultry farming. SH's net cash accruals declined sharply from Rs.5.52 crore in FY2011–12 to Rs.1.09 crore in FY2012–13 due to increase in raw material prices. The firm has a weak bargaining power with its customers due to intense competition prevalent in the poultry farming industry. SH's profit margins are highly susceptible to volatility in prices of bird feed — the main raw material, which accounts for ~86 per cent of the firm's total cost. Moreover, SH's operations are susceptible to the risk of outbreaks in poultry diseases.

SH has a moderate scale of operations. The firm's revenues increased from Rs. 69.08 crore in FY2011–12 to Rs.84.85 crore in FY2012–13, a growth of ~23 per cent. SH has moderate debt protection metrics with leverage at 0.78 times as on March 31, 2013 and interest coverage ratio of 2.90 times in FY2012–13. However, the firm's tangible net worth declined from Rs.10.33 crore as on March 31, 2012 to Rs.9.53 crore as on March 31, 2013 due to withdrawal of funds. SH has a comfortable working capital cycle of 21 days in FY2012–13. The firm's cash credit limit utilisation is moderate at ~90 per cent during January 2013 to August 2013.

SH benefits from its experienced management. Mr. Chinnasamy, Partner of SH, has two decades of experience in poultry farming.

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Outlook — Stable

SMERA believes the outlook on SH's rated facilities will remain stable over the medium term on account of the firm's experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while maintaining comfortable profit margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues or profit margins.

About the firm

SH, established in 1990, is a Coimbatore-based partnership firm engaged in poultry farming. SH has seven sheds with 22 incubators and 11 hatcheries. The overall operations of the firm are managed by Mr. Chinnasamy and Mr. C. Saravanan (son of Mr. Chinnasamy).

For FY2012–13, SH reported PAT of Rs.0.15 crore on operating income of Rs.84.85 crore, as compared with PAT of Rs.4.75 crore on operating income of Rs.69.08 crore for FY2011–12. Further, as per sales tax returns, the firm registered revenues of Rs.44.03 crore during April 2013 to August 2013. SH's net worth stood at Rs.9.53 crore as on March 31, 2013, as compared with Rs.10.33 crore a year earlier.

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