

January 27, 2016

Facilities	Amount (Rs. Crore)	Rating
Cash Credit	6.00	SMERA BB-/ Stable (Reaffirmed)
Term Loan	0.90	SMERA BB-/ Stable (Reaffirmed)

SMERA has reaffirmed the rating of **SMERA BB- (read as SMERA double B minus)** on the above mentioned bank facilities of Swathi Hatcheries (SH) reflecting stagnancy in the firm's revenue growth and operating profitability. The outlook is '**Stable**'. The rating continues to derive comfort from the experienced management, above average financial risk profile marked by comfortable gearing and interest coverage ratio. However, the ratings are constrained by exposure of the firm's profit margins to fluctuations in bird feed prices. The rating also notes that the business is exposed to outbreak of poultry diseases and other risks inherent in the industry apart from intense market competition.

Update

SH has booked sales of Rs.92.99 crore in FY2014-15 as compared to Rs.94.51 crore sales in FY2013-14 indicating stagnancy in growth. The firm's operating profits remain low in the range of 2 to 2.5 per cent in the past three years ended FY2014-15. SMERA believes that the firm's profitability is expected to remain in the same range on account of fluctuating bird feed prices. The liquidity of the firm remains stretched with ~95 per cent cash credit utilisation for the six months ended September 2015. The above average financial profile is marked by healthy debt equity of 0.60 times as on March 2015 and interest coverage ratio of 3.10 times in FY2014-15. Moreover, SH's business operations are susceptible to outbreak of poultry diseases and other industry risks.

Outlook: Stable

SMERA believes that the firm would continue to maintain a stable business profile owing to the extensive experience of the promoters. The outlook may be revised to 'Positive' if the firm increases its scale of operations and operating profitability on a sustained basis with effective working capital management. Conversely, the outlook may be revised to 'Negative' in case of lower than expected revenues and profitability or if the financial profile deteriorates on account of stretched working capital cycle.

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**Rating Sensitivity Factors**

- Increasing revenue with healthy profitability
- Effective working capital management
- Future capex plans and its funding

About the Firm

Established in 1990, Swathi Hatcheries (SH) is a Coimbatore based firm engaged in poultry farming. The day-to-day operations of the firm are managed by Mr. Chinnasamy and Mr. C. Saravanan.

For FY 2014-15 SH reported Profit After Tax (PAT) of Rs. 0.62 crore on sales of Rs.92.99 crore as compared to PAT of 0.27 crore on sales of Rs.94.51 crore in FY 2013-14.

Contact List:

Media/Business Development	Analytical Contact	Rating Desk
Antony Jose Vice President – Business Development Tel: +91-22-6714 1191 Cell: +91-98208 02479 Email: antony.jose@smera.in Web: www.smera.in	Mohit Jain Vice President – Rating Operations Tel: +91-22-6714 1105 Email: mohit.jain@smera.in	Tel: +91-22-6714 1184 Email: ratingdesk@smera.in

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