

Press Release

Swathi Hatcheries

November 15, 2019



Rating Reaffirmed and assigned

Total Bank Facilities Rated*	Rs. 23.00 Cr. (Enhanced from Rs. 6.90 crores)
Long Term Rating	ACUITE BB/Outlook: Stable (Reaffirmed and assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) on the Rs. 23.00 crore bank facilities of Swathi Hatcheries (SH). The outlook is '**Stable**'.

Coimbatore-based SH was established in 1990 as a partnership firm, engaged in the business of poultry farming. The firm is promoted by Mr. K. Chinnasamy, Mr. C. Muthulaxmi and Mr. C. Saravanan. Further the firm is in the process of venturing in the export of processed chicken. The installed capacity of the firm is Rs. 2.00 lakhs placements per week.

Analytical Approach

Acuite has considered standalone business and financial risk profiles of SH for the rating exercise.

Key Rating Drivers

Strengths

• Moderate financial risk profile

The financial risk profile of the firm is moderate marked by low gearing (Debt to Equity ratio), total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. The gearing (debt-to equity) is comfortable at 0.50 times as on 31 March, 2019. TOL/TNW is comfortable at 0.95 times as on 31 March, 2019. This is mainly on account of comfortable net worth, which stood at Rs.24.90 crore as on 31 March, 2019. The total debt of Rs. 12.21 crore as on 31 March, 2019 consists of long term borrowings of Rs. 3.58 crore and working capital borrowings of Rs. 8.62 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) have improved to 11.05 times and 0.57 times, respectively, in FY2019. The firm reported net cash accruals (NCA) of Rs. 6.92 crore in FY2019. The cash accruals are expected to be in the range of Rs.4.62-5.93 crores against repayment obligations of around Rs. 0.82-1.88 crores. Further the firm is undertaking a capital expenditure plan for the establishment of a food processing unit for export of processed chicken overseas.

• Smooth in working capital operations

SH's working capital is efficiently managed as is reflected by its gross current asset (GCA) days of around 78 days for FY2019 as against 75 days in FY2018. The firm maintains inventory levels of around 52 days. The debtor's collection period stood at 25 days in FY2019 as against 22 days in FY2018. Further, the creditor days stood at 46 days in FY2019. Utilization of its bank lines stood at an average of 90.83 per cent over the last six months through October 2019. Acuite expects the working capital management to remain efficient over the medium term on account of the low levels of inventory maintained and limited credit period extended to its customers.

• Experienced management and long track record of operations

SH is promoted by Mr. K. Chinnasamy, Mr. C. Muthulaxmi and Mr. C. Saravanan all of whom are seasoned players in the poultry industry having amassed an experience of over two decades each. The firm has an established track record with nearly three decades of operations in the region of Coimbatore. Acuite believes that the firm will continue to benefit from its established presence in the aforementioned industry and the promoter's demonstrated ability to scale up the operations across various cycles.

Weaknesses

• Moderate scale of operations

The scale of operations of the firm remained moderate marked by the operating income of Rs. 105.11 crores in FY2019, Rs. 96.55 crores in FY2018 and Rs. 97.05 crores in FY2017. Further the profitability of the firm is dependent on various factors like rain and competition as the firm is operating in the industry with a lot of organized and unorganized players due to low entry barriers.

Liquidity Position: Adequate

Swati Hatcheries has adequate liquidity marked by comfortable net cash accruals to maturing debt obligations. The firm generated cash accruals of Rs. 6.92 crores during FY2019. The cash accruals of SG are estimated to be around Rs.4.62-5.93 crores against repayment obligations of around Rs.0.82-1.88 crores in the period of 2020-22. The cash credit limit utilization remained at around 90 per cent during the last six month period ended October 2019. The firm maintains unencumbered cash and bank balances of Rs.1.41 crore as on March 31, 2019. The current ratio of SE stood moderate at 1.75 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of comfortable cash accruals against repayment obligations over the medium term.

Outlook: Stable

Acuite believes that Swati Hatcheries will maintain a 'Stable' outlook over the medium term, owing to its promoters' extensive experience in the industry and longstanding operations. The outlook may be revised to 'Positive' in case the firm achieves more than envisaged sales and profitability, while diversifying its revenue profile and sustaining its capital structure. Conversely, the outlook may be revised to 'Negative' if there is stretch in its working capital management or larger than-expected debt-funded capex or drop in profitability while venturing into newer territories leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	105.11	96.55	97.05
EBITDA	Rs. Cr.	8.82	7.87	3.75
PAT	Rs. Cr.	5.26	4.65	1.25
EBITDA Margin	(%)	8.39	8.15	3.87
PAT Margin	(%)	5.01	4.82	1.29
ROCE	(%)	21.96	25.86	22.62
Total Debt/Tangible Net Worth	Times	0.50	0.52	0.64
PBDIT/Interest	Times	11.05	9.24	4.43
Total Debt/PBDIT	Times	1.37	1.24	2.44
Gross Current Assets (Days)	Days	78	75	76

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-June-2019	Cash Credit	Long Term	6.00	ACUITE BB Issuer not co-operating*
	Letter of Credit	Long Term	0.90	ACUITE BB Issuer not co-operating*
22-Mar-2018	Cash Credit	Long Term	6.00	ACUITE BB Issuer not co-operating*
	Term Loan	Long Term	0.90	ACUITE BB Issuer not co-operating*
26-Dec-2016	Cash Credit	Long term	6.00	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)
	Term Loan	Long term	0.90	ACUITE BB/Stable (Upgraded from ACUITE BB-/Stable)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB/Stable (Withdrawn)
Term Loan	Not Applicable	Not Applicable	Not Applicable	0.90	ACUITE BB/Stable (Withdrawn)
Proposed long term	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE BB/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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