January 22, 2024

Sneha Farms Private Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]A+(Stable); reaffirmed
Long-term – Fund-based – Cash Credit	1,000.00	1,000.00	[ICRA]A+(Stable); reaffirmed
Long-term – Fund-based – Term Loan	857.89	914.37	[ICRA]A+(Stable); reaffirmed and assigned for enhanced limits
Long-term – Unallocated	-	82.52	[ICRA]A+ (Stable); assigned
Total	**1,857.89**	**1,996.89**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has considered the consolidated business and financial risk profiles of Sneha Farms Private Limited (SFPL), Sneha Foods and Feeds Private Limited (SFFPL), Sneha Gold Proteins Private Limited (SGPPL) and Singh Poultry Private Limited (SPPL). Together they are referred to as the Sneha Group (SG), given the close business, financial and managerial linkages among them.

The rating factors in the market leadership position of SG in Telangana and Andhra Pradesh and established track record of operations of the Group across three decades. ICRA also notes the Group's integrated nature of operations with presence across various stages of the value chain, including manufacturing of animal feeds, breeder farming, hatchery, broiler farming, layer farming, chicken processing, soya and rice bran oil extraction and refining, which strengthen the competitive position of the Group. The Group derives significant benefits from forward integration initiatives wherein a sizeable proportion of its broiler sales is consumed through its own channels including its processing plant, its own retail shops, or its more than 2,500 strong dealer network operated through a franchisee model. Access to alternative routes of sale improves SG's bargaining power with its traders.

The ratings also consider SG's healthy revenue growth at a CAGR of ~15% over the past four years till FY2023. SFPL, at a standalone level, recorded revenues of Rs. 2,513.0 crore in H1 FY2024 and annualised growth of 11%, on the back of healthy demand. It recorded healthy operating margins of ~15% in H1 FY2024 (at the standalone level) on the back of healthy realisations. However, margins are expected to moderate to 10-12% for FY2024 given the moderation in realisations in Q3 FY2024. Going forward, ICRA expects the company to record revenue growth of 5-10% in FY2024 driven by higher realisations and increase in volumes in the live bird segment and healthy growth in the processed meat segment.

The ratings are, however, constrained by volatility of margins inherent to the poultry sector. SG's earnings are susceptible to highly volatile feed prices, which are dependent on agro-climatic conditions (maize and soya being the main raw materials for poultry feed manufacturing), international prices and Government interventions in terms of setting the minimum selling prices (MSPs) and export-import policies. Moreover, its margins are susceptible to the volatility in broiler realisations due to the seasonal nature of the demand–supply of poultry products in India, which has a significant bearing on the profitability of all integrators, including the Sneha Group. However, ICRA notes that SG's forward integration, stocking up of raw materials during harvest season resulted in lower volatility and better margins for SG than players focused on broilers. Moreover, ongoing upgradation of a part of its farms to Environmental Controlled (EC) farms would reduce the cost of production.

The Group, like other entities in the poultry and related businesses, is also exposed to the inherent industry risk of disease outbreaks (bird flu), which are further exacerbated by concentration of revenues from Telangana and Andhra Pradesh markets. However, ICRA considers various bio-security measures adopted by the Group over the years, which mitigate the risk to an extent.

ICRA also notes the significant debt-funded capex of over Rs. 700.0 crore planned by the Group over the next two years. Execution of the capex within the budgeted cost and timeframe along with timely ramp-up of operations will remain critical from the credit perspective.

The Stable outlook on the long-term rating reflects ICRA's opinion that the Group's overall business profile will remain strong, supported by a sustained revenue growth and healthy cost structure. Its consolidated financial profile is likely to remain strong with healthy cash accruals, and comfortable debt coverage metrics despite the sizeable debt-funded capex.

Key rating drivers and their description

Credit strengths

Strong brand position of the company in Telangana and Andhra Pradesh market; established operational track record in poultry businesses – SG has an established track record of operations of over three decades. In terms of geographical revenue mix, it is present in only three states—Karnataka, Andhra Pradesh and Telangana—and enjoys a market leadership position in Andhra Pradesh and Telangana. It has healthy market share in Telangana and is a prominent retail brand in the region. Its dominant market share in the geographies enables it to charge a premium on broiler prices, protecting margins to an extent. It also enables the Group to monitor its farms more closely to prevent pilferage and reduce cost of production. Further, logistics costs are controlled as feed mills and broiler farms are largely located close to the points of sale.

Well integrated presence across value chain and significant forward integration help in better pricing – The Group has an integrated nature of operations across various stages of the poultry value chain, including manufacturing of animal feed, breeder farming, hatchery, broiler farming, layer farming, chicken processing, soya and rice bran oil extraction and refining. Further, it derives significant benefits from forward integration initiatives as it utilises a sizeable portion of its broiler production in its processing plant, its own retail shops, or its strong dealer network operated through a franchisee model. Access to alternative routes of sale improves SG's bargaining power with its traders. These factors strengthen the competitive position of the Sneha Group, as reflected by a marked improvement in the overall scale of operations over the years and a favourable cost structure.

Healthy financial profile – Operating margins have remained healthy for the company and relatively less volatile than other players in the industry. SG's margins contracted to 9.3% in FY2023 against 10-12% in FY2022 on account of weak realisations in Q4 FY2023. However, the Group's margins are expected to improve to ~10-12% in FY2024 on the back of improved realisations and benefits of operating leverage from increased scale. SG's healthy margins has resulted in strong gearing of 0.7 times in FY2023. Coverage metrics also remained healthy with DSCR of 2.6 times in FY2023. While the significant debt-funded capex in the near to medium term is expected to moderate the Group's coverage metrics, DSCR will continue to remain healthy at over 2.0 times.

Credit challenges

Profit margins vulnerable to price volatility and raw material price fluctuations – The major raw materials required for poultry feed are maize and soya de-oiled cake. SFFPL has solvent extraction facilities for manufacturing soya de-oiled cake from soya seeds. The prices of raw materials (maize and soya seeds) remain volatile on account of fluctuation in domestic production owing to agro-climatic conditions, international prices, Government regulations, and demand from the animal husbandry sector, which is susceptible to seasonality. The Group's profitability, like other entities in the poultry business, will remain vulnerable to the movement in feed prices. Further, volatility in broiler realisations, due to the seasonal nature of the demand–supply of poultry products in India, has a bearing on the profitability of all integrators. However, forward integration and stocking up of raw material during harvesting season have aided SG in recording healthy operating margins even in periods of stress in the industry.

Inherent risk in poultry business; however, the company is adopting various measures to mitigate the risks and revenues concentrated in Telangana and Andhra Pradesh – The Group, like other entities in the poultry and related businesses, is exposed to the inherent industry risk of disease outbreaks (bird flu or avian influenza) which are exacerbated by concentration of revenues (over 80% of revenues) in the Telangana and Andhra Pradesh markets. However, ICRA notes that the company has taken several measures—such as having breeder farms with capacity not exceeding 30,000 birds to ensure that disease outbreaks at any farm is contained and impacts a minimum proportion of its capacity—to mitigate the risk to an extent.

Sizeable capex plans in the near term – SG is expected to incur sizeable capex of over Rs. 700.0 crore in the next two years for multiple projects, including feed mills, solar power plant, maize silos, broiler farms, etc. It has incorporated a subsidiary company, SGPPL, for manufacturing soya doc and soya oil through construction of soya solvent extraction plant (SEP) and soya refinery with an installed production capacity of 800 TPD (tonnes per day) and 150 TPD, respectively. SGPL is being set up in Yavatmal, Maharashtra, to take the advantage of capex subsidy up to 100% by reimbursing the state GST, which will be spread over 10 years depending on the turnover. Commercialisation may take another 24 months from September 2023, after which revenues will be generated at a scale similar to SFFPL. As of December 2023, the company has incurred a cost of Rs. 100.0 crore towards the project (of the total project cost of over Rs. 310.0 crore), which was funded through Rs. 30.0 crore of term debt and Rs. 70.0 crore of equity from SFPL.

Liquidity position: Adequate

SFPL had cash balance of Rs. 49.0 crore as on September 30, 2023, and undrawn working capital lines of ~Rs. 50-100.0 crore. It is expected to generate retained cash flows of Rs. 250-300 crore for the next 12 months, against repayment obligations of Rs. 110-120 crore and capex obligations of over Rs.300-350.0 crore, which will be funded through a mix of debt and equity.

Rating sensitivities

Positive factors – The ratings could be upgraded if the company demonstrates healthy revenue growth and sharp improvement in its earnings profile, leading to improvement in capital structure and debt protection metrics, and strengthening of its liquidity profile. Specific credit metrics that may lead to a rating upgrade include TD/OPBITDA of less than 1.5 times on a sustained basis.

Negative factors – Pressure on the ratings may emanate from any sharp deterioration in revenue or earnings or weakening of the liquidity position. Specific credit metrics that may lead to a rating downgrade include weakening of DSCR below 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of SFPL, SFFPL, SGPPL and SPPL, given the significant operational, financial linkages, and support extended by SFPL to these entities.

About the company

Sneha Group was established in 1982 as 'Ram Reddy Chicken Market', before being rebranded as 'Sneha Farms Private Limited' (SFPL) in 1994. The flagship entity is involved in the business of poultry farming, poultry breeding, broiler chicken production, hatching of eggs, frozen chicken, commercial layer farming, and manufacture of poultry feed. Its Group company, Sneha Foods and Feeds Private Limited (SFFPL), is involved in the sale of soya oil, and soya de-oiled cake. Sneha Farms Private Limited holds a 5.8% stake in the entity.

In 2022, Sneha Gold Proteins Private Limited (SGPPL) was incorporated as a 100% subsidiary of SFPL for manufacturing soya oil by constructing a soya SEP and a soya refinery with an installed production capacity of 800 TPD and 150 TPD, respectively. In FY2024, the Sneha Group has acquired Singh Poultry Private Limited, which has an installed capacity of one lakh breeder birds, for a consideration of Rs. 50.0 crore (funded through mix of term debt and internal accruals)).

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	5,492.6	5055.8
PAT	323.8	252.0
OPBDIT/OI (%)	10.0%	9.3%
PAT/OI (%)	5.9%	5.0%
Total outside liabilities/Tangible net worth (times)	0.9	0.9
Total debt/OPBDIT (times)	1.3	2.1
Interest coverage (times)	9.1	6.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore;

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No	Instrument	Current Rating (FY2024)							Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Jan 22, 2024	Oct 27, 2023	Oct 10, 2023	Apr 13, 2023	-	-	-
1	**Issuer Rating**	Long-term	-	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-	-
2	**Fund based – Cash Credit**	Long Term	1000.00	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-	-	-	-
3	**Fund based – Term Loans**	Long Term	914.37	319.57	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-	-	-	-
4	**Unallocated**	Long Term	82.52	-	**[ICRA]A+ (Stable)**	-					

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Long Term- Fund based- Cash Credit	Simple
Long Term- Fund based- Term Loan	Simple
Long Term - Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Issuer Rating	-	-	-	-	[ICRA]A+ (Stable)
NA	Long Term- Fund based- Cash Credit	NA	NA	NA	1,000.00	[ICRA]A+ (Stable)
NA	Long Term- Fund based- Term Loan	FY2022	NA	FY2030	914.37	[ICRA]A+ (Stable)
NA	Long Term - Unallocated	NA	NA	NA	82.52	[ICRA]A+ (Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sneha Gold Proteins Private Limited	100.0%	Full Consolidation
Sneha Foods and Feeds Private Limited	5.8%	Full Consolidation
Singh Poultry Private Limited	100.0%	Full Consolidation

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About ICRA Limited:

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