

## Sriya Farm

January 24, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	21.00	CARE BB-; Stable; Issuer not cooperating* (Double B Minus; Outlook: Stable Issuer not cooperating)	Revised from CARE BB; Stable (Double B; Outlook: Stable); Issuer not cooperating; on the basis of best available information
<b>Total Facilities</b>	<b>21.00</b> (Rs. Twenty One crores only)		

*Details of instruments/facilities in Annexure-1*

#### Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Sriya Farm (SF) to monitor the rating vide e-mail communications dated January 3, 2020, January 7, 2020, January 8, 2020, January 9, 2020 and January 10, 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the rating. **In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of best available information which however, in CARE's opinion is not sufficient to arrive at fair rating.** The rating of Sriya Farm's bank facilities will now be denoted as CARE BB-; Stable; ISSUER NOT COOPERATING\*

***Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating.***

#### Detailed description of the key rating drivers

*At the time of last rating on October 24, 2018, the following were the rating strengths and weaknesses considered:*

#### Key Rating Weaknesses

##### ***Financial risk profile marked by leveraged capital structure and moderate debt coverage indicators***

The capital structure of the SF stood leveraged marked by a debt equity and overall gearing of 1.23x and 3.99x respectively as on March 31, 2018. However, the overall gearing has improved from 4.04x as on March 31, 2017 to 3.99x as on March 31, 2018 due to accretion of profits to reserves and repayment of debts on timely manner. The debt profile of the firm majorly consist of cash credit of Rs.16.65 crore, housing loan of Rs.9.06 crore and unsecured loan of Rs.5 crore as on March 31, 2018. The debt coverage indicators of the company marked by TD/GCA and interest coverage stood moderate at 6.60x and 2.93x respectively in FY18 due to low profitability. However, TD/GCA and interest coverage improved from 9.37x and 2.21x respectively in FY17 due to increase in cash accruals along with reduction in financial expenses on back of repayment of term loan and lesser utilization of working capital.

##### ***Working capital nature intensive nature of operations***

The operating cycle of the firm is moderate in FY18 and stood at 38 days. The firm mostly gives credit period up to one week to its customers. SF receives average credit of 30-40 days on purchases of its inputs. Due to its nature of business, wherein the firms engaged in poultry integration business, firm is required to keep high inventory of poultry feeds to supply it to the farmers who can feed the birds in different growing stages and to mitigate fluctuation in raw material prices. Further birds are kept in hatchery for 21 days then it is sent to broiler farm for 40 days where birds are fed in different growing stages and proper vaccinations are done to increase the weight of the birds resulting in high inventory days of 71 days in FY18. Firm is paying to the farmers on cash basis.

To meet the working capital gap, the firm is dependent on Working capital and the average working capital utilizations of the firm stood high at 70%-80% during the period ending on September 30, 2018.

##### ***Proprietorship nature of constitution with inherent risk of withdrawal of capital***

Being a Proprietorship firm, SF is exposed to inherent risk of Proprietor capital being withdrawn at a time of personal contingency and firm being dissolved upon the death/retirement and insolvency of the proprietor. Moreover, proprietorship business has restricted avenues to raise capital which could prove hindrance to its growth. However there is capital withdrawal of Rs.3.44 crore in FY18 though the same was invested in associate concern Sriya Farm and Feeds Private Limited.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

\*Issuer not cooperating: Based on best available information

**Highly fragmented industry with intense competition from large number of players and vulnerability of profits to raw materials price movements**

SF faces stiff competition in the poultry business from large number of established and unorganized players in the market. Competition gets strong with the presence of unorganized players leading to pricing pressures. However, improved demand scenario of poultry products in the country enables well for the firm. Further, the prices of inputs i.e. poultry feed which accounts to around 80% of the total cost of sales and are volatile in nature based on the availability and demand, also have an impact on the profitability of the firm.

**Cyclical nature of poultry industry and risk associated to any outbreaks of bird flu and other diseases**

Intermittent outbreaks of bird flu have affected sales of eggs and chicks in the last few years. These avian flu outbreaks lead to a drastic fall in demand followed by crash in poultry prices. News of bird flu outbreak in previous years had led to banning poultry and related products in many states. Such a ban could lead to poultry products being piled up leading to an excess supply situation thereby causing a sharp fall in poultry prices. In case of such scenario against an increasing trend noted in feed prices (maize and soya) could pressurize the firm's revenue flows as well as profitability.

**Key Rating Strengths****Established track record of operations and experience of the proprietor in poultry industry**

SF was established in 2003 and has been in the poultry integration business from last fifteen years. It has established a long track record of operation with its ability to bag repeat orders from its existing customers and acquire new customers. Proprietor of SF Dr. M.L. Suresh Babu is a veterinary physician by qualification and has more than two decades of experience in poultry industry and day to day operations are managed by him only.

**Increase in total operating income (TOI) along with increase in PAT margin during review period albeit fluctuation in PBILDT margin**

The total operating income of the firm has shown an increasing trend during review period. The total operating income of the entity has grown at a CAGR of 35.18% during review period and reached to Rs.137.89 crore in FY18 as compared to Rs.73.20 crore in FY16 due to increase in demand for product from existing customers as well as addition of new customers.

Profitability of SF has also seen an improvement due to increase in total operating income in absolute terms. PBILDT margins although fluctuated in the range of 5.20%-5.40% during review period due to movement in prices of poultry feeds based upon demand and supply factors along with fluctuation in freight inward charges, direct contract charges (being paid to farmers for poultry farming) and other operating overheads. Furthermore, the PAT margin of the firm improved and stood satisfactory in the range of 1.5%-3.00% during review period with increase in operating profit resulting in absorption of financial expenses.

**Location advantage**

SF is located in Bangalore, it has six branches Devanhalli, Sarjapur, Hollekere, Pavaguda and Mysuru in Karnataka and Madanapalli in Andhra Pradesh, covering most of the Karnataka and having a market share of 6.5% approximately. Sriya Farm and Feeds Private Limited is an associate concern of SF based in Bangalore and manufactures poultry feeds. It's a sole supplier to SF for poultry feeds and close to Davangere. Davangere is geographically blessed in producing agriculture products like paddy, jowar, maize, bajra and cereals. These agricultural products are the main raw material for poultry feed manufacturing and easily available for Sriya Farms and Feeds Private Limited. The proximity to its market centers and suppliers helps SF to reduce its transportation costs thus improving its profit margins.

**Favorable demand outlook of Indian poultry industry**

Poultry products like eggs have large consumption across the country in the form of bakery products, cakes, biscuits and different types of food dishes in home and restaurants. The demand has been driven by the rapidly changing food habits of the average Indian consumer, dictated by the lifestyle changes in the urban and semi-urban regions of the country. The demands for poultry products are sustainable and accordingly, the kind of industry is relatively insulated from the economic cycle.

**Analytical approach:** Standalone

**Applicable criteria**

[Policy in respect of Non-cooperation by issuer](#)

[Criteria on assigning Outlook to Credit ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology-Manufacturing Companies](#)

### About the Firm

Bangalore based M/s Sriya Farm (SF), established in 2003 as a Proprietorship Firm by Dr. M.L. Suresh Babu, and is engaged in poultry integration business, where a contract is given to the framers for production of broiler chicken. SF produces small chicks and keeps them in their hatchery for 21 days after which it is sent to the farmers for further hatching process in their respective local areas. The firm has a capacity of 200 lakhs per annum hatchery eggs production of their own and 130 lakhs broiler birds per annum under contract with local farmers.

The firm purchases poultry feeds from its associate concern Sriya Farm and Feed Private Limited which manufacture poultry feed and sole supplier for SF. The firm sells broiler chicken majorly in Karnataka and Andhra Pradesh.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	124.80	137.89
PBILDT	6.03	7.20
PAT	2.30	3.83
Overall gearing (times)	4.04	3.99
Interest coverage (times)	2.21	2.93

A: Audited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance	ISIN No.	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	21.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information

\*Issuer not cooperating: Based on best available information

### Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	21.00	CARE BB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BB; Stable on the basis of best available information	-	1)CARE BB; Stable (24-Oct-18)	-	-

\*Issuer not cooperating: Based on best available information

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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