RATING RATIONALE **7 July 2020**

SRI KUSUMA SATYANARAYANA POULTRY COMPLEX

Brickwork Ratings Reaffirms the ratings for the enhanced Bank Loan Facilities of ₹ 10.45 Crores of Sri Kusuma Satyanarayana Poultry Complex

Particulars:

Facilities**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (July 2019)	Present
Fund Based:					
Cash credit	**7.70**	**9.50**	**Long Term**	**BWR BB- Stable**	**BWR BB- Stable (Reaffirmation)**
Term loan # (Covid 19 scheme)	**-**	**0.95**			
Total	**7.70**	**10.45**	**INR Ten Crores and Forty Five Lakhs Only**		

 # Term loan amount outstanding as on 26.6.2020

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

** Details of Bank facilities is provided in Annexure - I

RATING ACTION / OUTLOOK

Brickwork Ratings reaffirms the ratings of BWR BB- Stable for the enhanced long term facilities of Rs. 10.45 Crs of M/s. Sri Kusuma Satyanarayana Poultry Complex.

BWR has essentially relied upon the firm's audited financial results up till FY19, Provisional Statement for 31.3.2020, Projections for FY20 & FY21 and publicly available information and clarifications provided by the management.

KEY RATING DRIVERS

The rating has inter-alia, factored experience of the partners in the Poultry farming business for almost three decades, established market presence, increase in net worth, comfortable financial risk profile and ability to meet its debt obligations. However, the ratings are constrained by the stagnant operating revenue and profitability level, low debt service coverage, competition from many medium & large players in the industry and working capital intensive nature of operations.

- **Credit Strengths:**

Management having vast experience in the relevant industry: Management having vast knowledge and experience in the Poultry farming activities. Partners of the firm have been in the business since 1992. Mr. China Appa Reddy, Managing Partner has more than two decades of experience in the industry. He is supported by his sons Mr. Vipul Avinash Reddy and Mr. Sameerkumar Reddy in the day to day activities of the firm.

Improved Net worth of the firm: Net worth of the firm for FY19 was at Rs. 7.73 crs as against Rs. 7.41 crs in FY18.

Comfortable financial risk profile of the firm: Gearing level of the firm has been comfortable Y-o-Y with Debt Equity ratio for FY19 at 0.93 times as against 0.83 times in FY18. Current ratio of the firm was at 1.85 times and the average receivable at 13 days.

- **Credit Risks:**

Stagnant Operating revenue and Profitability margin of the firm: Operating revenue and profit level for FY19 was stagnant. It stood at Rs. 25.02 crs and Rs. 0.32 crs as compared to Rs. 24.83 crs and Rs. 0.32 crs, Rs. 22.72 crs and Rs. 0.28 crs in FY18 & FY17 respectively. Further, as per Provisional statement for FY20, sales revenue was at Rs. 24.50 crs (against projections for Rs. 30.00 crs)

Debt Service Coverage ratio: Debt protection matrix of the firm has been volatile with ISCR at 1.64 times for FY19 as against 1.41 times in FY18 and 1.66 times in FY17, while DSCR was at 1.54 times for FY19 as compared to 1.24 times in FY18 and 1.55 times in FY17.

High competition from many small and medium units in and around the region: The firm faces stiff competition from many poultry farming units established in and around the region.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

RATING SENSITIVITIES

Going forward the ability of the firm to improve its scale of operation, to meet its projected revenue and profitability margin, to maintain its financial risk profile and to manage its working capital efficiently will be the key rating sensitivities.

Positive:

- Management having vast knowledge and experience in the relevant business

Negative:

- Stagnant operating revenue and profitability of the firm
- High competition from many players in the relevant industry

LIQUIDITY POSITION

Liquidity level of the firm was slightly stretched with CC utilisation of ~ 90-95 percent during the last six month of FY20. Current ratio was at 1.85 times for FY19 with receivable days of 13 days. Further, net cash accruals to total debt was at 0.06 times for FY19. Management has recently availed Term loan facility of Rs. 0.95 crs under Covid Emergency line of credit for the purpose of meeting the liquidity crunch and cash flow mismatch on account of the recent outbreak.

ABOUT THE FIRM

Sri Kusuma Satyanarayana Poultry Complex (SKSPC) was established as a partnership firm during 1992 for carrying out the Poultry farming and feed manufacturing activities in East Godavari, Andhra Pradesh.

The management of SKSPC was reconstituted on 1st April 2019, with few of the partners retiring and addition of two new partners to the firm. It includes, Mr. China Appa Reddy as Managing Partner; other partners being Mrs. Kusumalatha, Smt. Kusuma, Smt. Bhaskara Lakshmi, Mr. Vipul

Avinash Reddy and Mr. Sameerkumar Reddy. All partners are members of the family. Mr. China Appa Reddy, Managing partner holds 28 percent p.a. of the profit sharing and has more than two decades of business experience in the poultry industry. As per the partnership deed, Mr. Vipul Avinash Reddy and Mr. Sameerkumar Reddy sons to Mr. China Appa Reddy will be assisting in the day to day activities of the firm for a profit sharing of 9 percent p.a. each and a remuneration of Rs. 10000 pm.

The firm has two poultry farms with a capacity of 290000 layers. The birds are nurtured from the stage of laying eggs. The layer hens lay eggs for approx. 250- 300 days after which they are sold. The unit operates at a single shift of 8 hours. Sale of eggs contributes to more than 90% of the firm's revenue while balance comes from sale of birds, litters etc. Firm also manufactures poultry feed mainly for its inhouse consumption.

Sales of eggs and birds are done locally while the raw materials for the activities are procured from in and around Hyderabad and Kakinada region. Presently, the firm has appointed 10 nos of permanent employees and 45 nos of hired labour. Production capacity for FY19 includes, Eggs 6,68,03,575 nos, Birds including - Layers 2,94,092 nos, Chicks 25,832 nos, Growers 51,124 nos and Feeds 11,500 tons.

The management has been running another business in the region under the name & style of Kusuma Satya Convention. It carries out the activities of convention hall and for marriage & other related functions.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Revenue	₹ Crs	25.02	24.83
EBITDA	₹ Crs	0.79	0.93
PAT	₹ Crs	0.32	0.32
Tangible Net worth	₹ Crs	7.73	7.41
Total Debt/Tangible Net worth	Times	0.93	0.83
Current Ratio	Times	1.85	2.05

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : None

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

Facility	Current Rating (2020)			Rating History		
	Tenure	Amount (₹ Cr)	Rating	16.7.19	FY18	FY17
Fund Based	Long term	10.45	BWR BB- Stable (Reaffirmation)	BWR BB- stable	-	-
Total		**10.45**	**INR Ten Crores and Forty Five Lakhs Only**			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**

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Sri Kusuma Satyanarayana Poultry Complex

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Tenure	Total (₹ Cr)
1	Andhra Bank (Union Bank of India)	<u>Fund Based:</u> Cash credit	Long Term	9.50
2		Term loan (Covid 19 scheme) #		0.95
TOTAL AMOUNT				10.45

 # Term loan amount outstanding as on 26.6.2020

Total Rupees Ten Crores and Forty Five Lakhs Only.

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