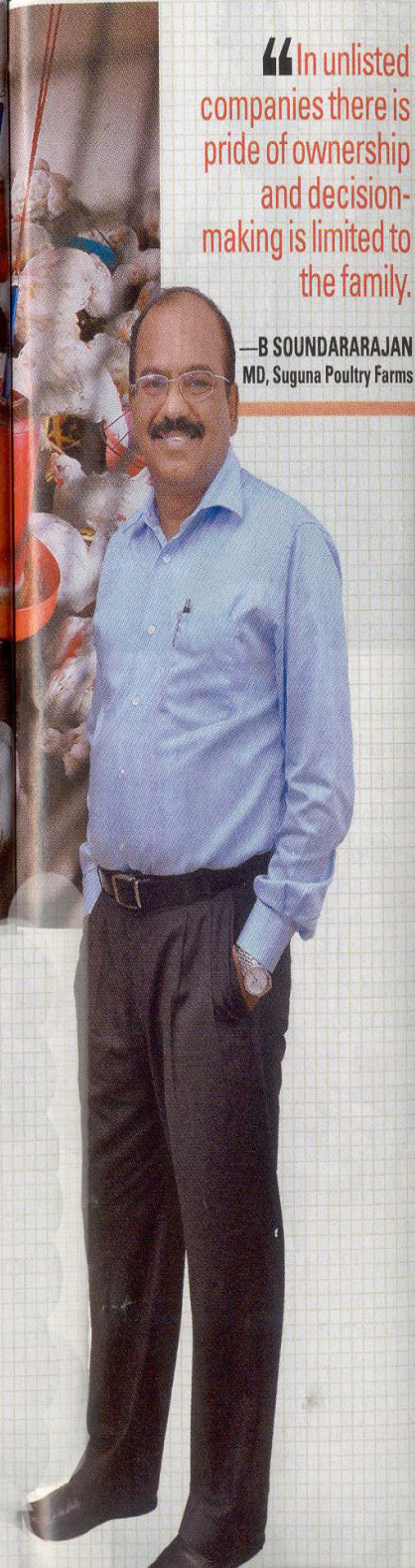


FINE FEATHERS



“In unlisted companies there is pride of ownership and decision-making is limited to the family.”

—B SOUNDARARAJAN
 MD, Suguna Poultry Farms



Vidhya Sivaramakrishnan

IT ISN'T OFTEN THAT A SECTOR DOMINATED by unorganised players is spoken about in the business press. In recent weeks, however, the ₹20,000-crore poultry business has got its moment under the sun thanks to a wholly side-event, albeit a glamorous one—Venkateshwara Hatcheries buying English Premier League football club Blackburn Rovers. Of course, the ₹4,000-crore Venkateshwara represents the organised side of the poultry game. And one of the very few organised rivals it has is perched down south, in Coimbatore. Suguna Poultry Farms is big enough to be not too far from sales of

\$1 billion; it's looking at revenues of ₹3,700 crore this year (up from ₹3,200 crore last year).

Companies like Suguna and Venkateshwara are trying to create a stir in this largely commoditised market through branded products and a health- and hygiene-centric positioning. Actually, the two companies are quite different from each other. For starters, while Venkateshwara has a listed arm (Venky's), Suguna continues to be privately held, 26 years after its founding.

Venkateshwara has a diverse range of offerings—from chicken to eggs to manufacturing of farm equipment to feed and vaccine production. On the other hand,

Suguna is firmly focused on broiler chicken as its end product and plans to continue with this in the coming years too.

Suguna was started by B Soundararajan, Managing Director, and GB Sundararajan, Joint Managing Director, in 1984. Coming from an agricultural family, the brothers decided to set up a poultry farm in Udumalpet, around 57 km from Coimbatore, with 200 layer birds (that produce eggs), which steadily grew into one of the major players in the industry. It earns all but 1% of its revenues from the sale of chicken.

The 1% is accounted for by value-added eggs, frozen and chilled chicken and ready-to-cook products. Broiler chicken is its mainstay and the company intends to remain focused on this rather than increase sales of layer chicken (which produce eggs to be sold).

Though the company started with layer birds, it switched to broiler chicken a year after it set up its poultry farm because of the latter's attractive returns. Soundararajan says that broiler chickens are 2-2.5 times more profitable than layer chickens.

The Coimbatore company still remains a founder-driven company. Suguna has managed to get substantial funding from private equity investors. It attracted an investment of ₹50 crore from International Finance Corporation, the private equity arm of the World Bank in 2006.

"If a company is listed, you can raise money easily; shares can be traded whereas we can't do it immediately. If unlisted, there is the pride of ownership and decision-making is limited to a few people—within the family," says Soundararajan.

Contract Farming And Exports

Suguna says it was the first to start contract farming in poultry in the country. What it does is provide day-old chicks, the necessary feed and other support to farmers. The farmers rear the chicks and sell them back to the company after six weeks. What they get is a fixed price (₹6.50 to ₹7 per bird). It now has tie-ups with over 15,000 farmers in 11 states. This model, which is a prevalent international practice, has worked quite well for Suguna and other major companies like Venkateshwara.

Soundararajan says that under this model, each farmer invests around ₹5 lakh for the infrastructure to rear chickens while the operational costs are

borne by the company. Each farmer can rear 6,000 birds every two months and earn about ₹2.4 lakh a year. Considering that the farmers incur the initial capital costs, this model allows the company to save money to that extent. Suguna spends around ₹100 per bird for feed and vaccine.

After a triple whammy—bird flu, raw material price rise and the global recession—Suguna is back in the business of growth this year. (It extended its fiscal year 2009 balance sheet to a 15-month period to post profits. And converted fiscal 2010 to a nine-month reporting period.)

To ride the recovery in the economy, the company has a few plans. It wants to set up 100 more stores branded 'Suguna Daily Fresh' in a year's time. There are now 55 such stores in seven cities across three states. Also on the agenda are new geographies like the North East, Bihar and Jharkhand. In line with those plans, Suguna is going to increase the production capacity of its chicken processing unit from 1,000 tonnes per month to 2,500 tonnes per month after January 2011.

Where it again differs from Venky's is its treatment of the export market. Suguna sells processed chicken to countries like Saudi Arabia, Oman, Dubai and Bhutan, good enough to earn on an average ₹15 crore a year. "Exports are not stable," says Soundararajan. "Sometimes, we earn ₹10 crore a year whereas at other times, we earn about ₹20-25 crore." Exports for Suguna contribute a tiny portion of its turnover. But Soundararajan says there's no plan to increase exports. The reason, according to him, is Brazil.

"Brazil sells chicken at a cost 30% lesser than India," he says. "It has a large agricultural area, the raw material prices are low and, therefore, the production costs are also low." It's tough to compete with Brazil. Venky's, however, seems to have different plans. One of the reasons for its acquisition of Blackburn Rovers is said to be more visibility for its brand in Europe.

But Suguna's strategy means it has to be dependent on the Indian market, where there's an inherent downside. Soundararajan says it's a mindset problem. Not many Indians have warmed up to the idea of buying frozen or chilled chicken. "The mindset of the people is such that anything cold is not accepted as fresh!" ■

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