

SKM Egg Products Export (India) Limited
July 02, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long -term Bank Facilities	2.57 (Reduced from 3.33)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Long-term / Short-term Bank Facilities	36.00	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Revised from CARE BBB; Stable / CARE A3 (Triple B; Outlook: Stable / A Three)
Short-term Bank Facilities	49.00	CARE A2 (A Two)	Revised from CARE A3 (A Three)
Total Bank Facilities	87.57 (Rs. Eighty seven crore and fifty-seven lakhs only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of SKM Egg Products Export (India) Limited (SKML) factors in the efforts of the company in securing its supply chain of eggs by way of leasing a farm which would provide for almost 85% of its egg breaking capacity at a lower cost. Moreover, this helps the company take advantage of the price volatility in eggs by way of direct sale of eggs or conversion to powder thereby bringing a more stability in the profitability margins. These efforts have yielded significant benefits for the company in Fy21 on its profitability.

The ratings continue to take into account the long operational track record of SKML for more than two decades in the egg powder business, dominant share among the Indian egg powder exporters, strategically located manufacturing facilities with adherence to high-quality standards, diversified product offerings with a well-established distribution network comfortable capital structure, healthy coverage indicators and adequate liquidity position.,

The ratings are, however, constrained by SKML's geographical & client concentration risk, susceptibility of profitability to international egg powder prices & foreign exchange fluctuations. The ratings also factor in the susceptibility of the industry to the outbreaks of bird flu and other diseases.

Rating Sensitivities**Positive Factors**

- Improvement in PBILDT margins upwards of 15% on consistent basis.

Negative Factors

- Stretching of operating cycle or deterioration in liquidity indicators.
- Any large debt-funded capex leading to deterioration in capital structure with overall gearing above the range of 0.60-0.80x.

Detailed description of the key rating drivers**Key Rating Strengths****Experienced promoters & long operational track record for more than two decades:**

Mr SKM Maeilanandhan, promoter of the SKM group, has vast experience of nearly four decades in the poultry and related industries. Mr Maeilanandhan is assisted by his son, Mr Shree Shivkumar with nearly 25 years of

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

experience in the industry. SKML has a long track record of operations for over two decades in manufacturing and export of egg powder.

Integrated and strategically located manufacturing facility with adherence to high quality standards

The operations of SKML are integrated with the company having its own poultry farm to meet its raw material requirements as well as its own feed manufacturing unit to cater to its poultry farm. All the poultry farms including the company's own farm are strategically located in proximity from the company's manufacturing unit (30-40 km radius) thereby providing easier access to the raw material and ensuring lesser breakage of eggs during transit. The entire operations of the company from egg-breaking process up to production and packing of the final egg powder is automated to maintain high level of quality standards.

Largest exporter of egg powder from India backed by diversified product offerings and established distribution network

SKML is the largest exporter of egg powder from India and accounts for almost 60-65% of the overall export of Egg Yolk and Albumin egg powder from India in FY21. The company has a diversified range of products including egg yolk powder, egg albumin, bakery mix, liquid egg etc. SKML has its subsidiary in Netherland (contributing around 5-10% of revenue) and sales to other markets are channelized through third party distributors/agents. Product sales mix in export division as a percentage of total sales in FY21 consists of egg yolk powder around 47%, egg albumen powder around 31%, whole egg powder around 18% and the rest by liquid egg.

Improvement in profitability margins with inhouse raw material sourcing and increased presence in domestic market

SKM is into manufacture of egg derivative products with the raw material, egg forming almost 75-80% of the production cost. The company had been sourcing its requirement of eggs partly from its own farm and balance from the market. While the egg prices are volatile depending upon the economics of the Indian market, the end product prices depend mostly on the international demand supply scenario. Thus, with limited control on the end product prices rendering the profit margins volatile in the past few years, the company resorted to backward integration by means of setting up a leased poultry farm in Q4FY20. The price of eggs sourced from own/leased farms are lower than the market prices and ensures control over the supply chain. This also enables the company to convert to egg powder when prices are low and stock inventory as the powder have a shelf life of 1.5 years. Further at times when egg prices are unfavorable for conversion and stocking, the company engages in direct sales of eggs sourced from its farms in the domestic market which has led to an increased presence in domestic market. SKML's domestic income share in sales revenue increased to 34% in FY21 (PY 24%). A combination of these efforts, along with favourable product prices have resulted in sharp improvement in profitability margins for FY21 and the efforts in backward integration with the leased farms is expected to help the company sustain higher margins than in the past.

Comfortable gearing and coverage indicators

The company's capital structure remains comfortable with overall gearing at 0.70x as on March 31, 2021, against at 0.80x as on March 31, 2020. The interest coverage ratio remained comfortable at 11.83x (PY 4.73x) in FY21, Total Debt/ GCA also stood comfortable at 2.05 years (PY 4.03 yrs) as on March 31, 2021.

Key Rating Weaknesses

Geographically concentrated revenue

SKML's top five customers account for 56% (PY: 62%) of its total sales during FY21 and majority of sales are contributed by Japan (36% in FY21) followed by Russia and Netherlands. SKML's higher concentration on Japanese and European markets exposes the company to any change in consumption pattern in these markets and entry of alternate products. To improve geographical presence and customer base, SKML has been adding new customers in other geographies as well as focusing on domestic market for the sale of its liquid products and frozen Egg albumen.

Exposure to foreign exchange risk

More than 60% of revenue of SKML is generated in foreign currency while the raw material is procured locally barring certain consumables. SKML enters forward contracts for about 70% of its receivables for one year, however for the rest of the exposure, the company is exposed to foreign currency fluctuations.

Vulnerability of the industry's performance to outbreaks of flu and other diseases

A ban on exports due to bird flu could lead to products being piled up leading to an excess supply situation thereby causing a sharp fall in the end-product prices. Such scenario is expected to have an impact on the company's revenues as well as profitability. However, the high level of safety standards like high temperature pasteurization and high-quality processing at the company's units reduces any major impact on the company's revenues during such outbreaks.

Prospects

India is the 5th largest producer of eggs in the world with annual egg production of 56 billion eggs. Egg prices are sensitive to market dynamics and controlled by NECC (National Egg Co-ordination Committee), while prices of egg powder depend on international market demand. It is, however, noteworthy that with the diversification in geography and sourcing of majority raw material from own farms, SKML is in control of the raw material cost to a considerable extent. However, movement of egg powder prices in the international market impact SKML's performance. Going forward, sustainability of demand for egg powder in its export markets and the ability of the company to keep its raw material sourcing strategies intact would be crucial for its prospects.

Liquidity- Adequate

The liquidity of the company is adequate with sufficient cushion in accruals against low debt repayment obligations of Rs 3.42 crore for FY22. However, the operations of SKML are working capital intensive in nature due to its nature of business and its requirement to maintain high inventory for export orders and diversified product profile. The operating cycle stood elongated at 141 days in FY21. The average working capital utilization for the past 12 months period ended May 2021 stood at 85%. The company had unencumbered cash and bank balance of Rs 10.44 Crores and liquid investments of Rs 15.30 crore as on March 31, 2021. Going forward, SKMPL's liquidity is expected to remain comfortable on the back of healthy cash accruals.

Analytical approach: Standalone

Applicable Criteria

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

[CARE's Criteria on assigning Outlook and credit watch to Credit Ratings](#)

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

[CARE's methodology for manufacturing companies](#)

[Criteria for Short-term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the Company

SKML, promoted in 1995 by Mr SKM Maeilanandhan (Chairman), is a Joint Sector Undertaking along-with Tamil Nadu Industrial Development Corporation Limited (TIDCO). SKML is a listed entity and as on March 31, 2021, the promoters hold 47.51% stake, TIDCO holds 7.58% stake and the rest is held by institutions & general public. SKML is engaged in the manufacture and sale of egg powder and liquid egg with varieties of blends used in various segments of the food industry and in the health sector. As on March 31, 2021, the company had an installed capacity to break 1.80 million eggs per day to produce 7,500 MT of egg powder annually at its unit in Erode.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	293.04	258.44
PBILD	28.23	44.43
PAT	5.28	15.67
Overall gearing (times)	0.80	0.70
Interest coverage (times)	4.73	11.83

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

Covenants of Rated Instrument: Detailed explanation of covenants of the rated instrument is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Packing Credit in Foreign Currency	-	-	-	36.00	CARE BBB+; Stable / CARE A2
Fund-based - ST-Foreign Bill Discounting	-	-	-	39.00	CARE A2
Fund-based - LT-Term Loan	-	-	September 2023	2.57	CARE BBB+; Stable
Non-fund-based - ST-Credit Exposure Limit	-	-	-	10.00	CARE A2

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	36.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3 (01-Sep-20)	1)CARE BBB; Stable / CARE A3 (02-Mar-20) 2)CARE BBB; Stable / CARE A3 (31-Jul-19)	1)CARE BBB; Stable / CARE A3 (05-Oct-18)
2.	Fund-based - ST-Foreign Bill Discounting	ST	39.00	CARE A2	-	1)CARE A3 (01-Sep-20)	1)CARE A3 (02-Mar-20) 2)CARE A3 (31-Jul-19)	1)CARE A3 (05-Oct-18)
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	1)Withdrawn (31-Jul-19)	1)CARE A3 (05-Oct-18)
4.	Non-fund-based - ST-Bank Guarantees	ST	-	-	-	-	1)Withdrawn (31-Jul-19)	1)CARE A3 (05-Oct-18)
5.	Fund-based - LT-Term Loan	LT	2.57	CARE BBB+; Stable	-	1)CARE BBB; Stable	1)CARE BBB; Stable (02-Mar-20)	1)CARE BBB; Stable

						(01-Sep-20)	2)CARE BBB; Stable (31-Jul-19)	(05-Oct-18)
6.	Non-fund-based - ST-Credit Exposure Limit	ST	10.00	CARE A2	-	1)CARE A3 (01-Sep-20)	1)CARE A3 (02-Mar-20)	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple
2.	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple
3.	Fund-based - ST-Foreign Bill Discounting	Simple
4.	Non-fund-based - ST-Credit Exposure Limit	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to 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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