

## SKM Egg Products Export India Limited

July 05, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	6.22 (Enhanced from 2.57)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long-term/Short-term bank facilities	46.00 (Enhanced from 36.00)	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Short-term bank facilities	49.00	CARE A2 (A Two)	Reaffirmed
<b>Total bank facilities</b>	<b>101.22</b> <b>(₹ One hundred one crore and twenty-two lakh only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of SKM Egg Products Export India Limited (SKML) continue to derive strength from 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, integrated nature of operations, diversified product offerings with a well-established distribution network comfortable capital structure, comfortable coverage indicators and adequate liquidity position.

The ratings are, however, constrained by SKML's geographical and client concentration risk, susceptibility of profitability to international egg powder prices and 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 – Factors that could lead to positive rating action/upgrade:

- Ability to scale up the operations to over ₹400 crore while maintaining the PBILDT margin of over 15% on a consistent basis.

#### Negative factors – Factors that could lead to negative rating action/downgrade:

- Stretching of the operating cycle or deterioration in the liquidity indicators.
- Any large debt-funded capex leading to deterioration in the capital structure with overall gearing above the range of 1x.

### Detailed description of the key rating drivers

#### Key rating strengths

#### Experienced promoters & long operational track record for more than two decades

SKM Maeilanandhan, the promoter of the group, has vast experience of nearly four decades in the poultry and related industries. SKM Maeilanandhan is assisted by his son, Shree Shivkumar, having around 25 years of experience in the industry. SKML has a long track record of operations for over two decades in the 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 close 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.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**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 50%-60% of the overall export of egg yolk and albumin egg powder from India in FY22 (refers to the period April 1 to March 31). The company has a diversified range of products, including egg yolk powder, egg albumin, bakery mix, liquid egg, etc. During FY22, exports contributed to 55% of the income in FY22. 47% (PY:47%) of the exports are contributed by egg yolk powder, 32% by albumin, 19% by whole egg powder and the rest by sale of eggs and liquid egg.

**Comfortable profit margins albeit declined during FY22**

SKML 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 85% of its requirement of eggs from its own/leased farm and balance from the market. However, the prices of maize and soya, the major feed ingredient has gone up over the past one year, which resulted in decline in PBILDT margin to 12.74% in FY22 from 17.19% in FY21. Nevertheless, the profitability still remained comfortable and relatively higher compared to the previous years aided by the backward integration.

**Comfortable gearing and coverage indicators**

The company's capital structure remains comfortable with overall gearing at 0.81x as on March 31, 2022 against at 0.70x as on March 31, 2021. With decline in cash accruals, the Total debt/GCA deteriorated however remained comfortable at 2.99x as of March 31, 2022 from 2.05x as of March 31, 2021. The interest coverage ratio stood at 9.97x (PY:11.83x) in FY22.

**Key rating weaknesses****Geographically concentrated revenue**

SKML's top five customers account for 52% (PY: 56%) of its total sales during FY22 and majority of sales are contributed by Russia (18% in FY22) followed by Japan and other countries. 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 75% of the 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. The company also has free cash and liquid investments of ₹33.15 crore as on March 31, 2022. The operating cycle remained elongated at 123 days in FY22 (PY: 130 days) on account of stretched inventory days due to the company's requirement to maintain high stock for export and diversified orders. SKML has been sanctioned with working capital of ₹85 crore and the average utilisation of the same stood at 90% for last 12 months ended April 2022. The current ratio stood comfortable at 1.54x (PY: 1.61x) as on March 31, 2022.

## Analytical approach: Standalone

### Applicable criteria

[Policy on default recognition](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Financial Ratios – Non-financial Sector](#)

[Manufacturing Companies](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

### About the company

SKM Egg Products Export (India) Ltd (SKML), promoted in 1995 by SKM Maeilanandhan (Chairman), is a joint sector undertaking along-with Tamil Nadu Industrial Development Corporation Limited. SKML is a listed entity and as on March 31, 2022, the promoters held 47.82% stake, TIDCO 7.58% stake and the rest held by institutions and general public. SKML is engaged in the manufacture and sale of egg powder and liquid egg with varieties of blends used in various segments in the food industry such as bakery & confectionery, noodles & pasta, meat & fish products, mayonnaise & salad dressing and also in health and pharmaceuticals sector. The company has an installed capacity to break 1.8 million eggs per day to produce 7,500 MT of egg powder annually.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	2MFY23 (UA)
Total operating income	249.44	293.61	80.00
PBILDT	23.95	18.11	NA
PAT	15.70	7.87	NA
Overall gearing (times)	0.57	0.81	NA
Interest coverage (times)	6.38	4.74	NA

A: Audited; UA: Unaudited; NA: Not Available

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

**Any other information:** Not Applicable

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

**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	46.00	CARE BBB+; Stable / CARE A2
Fund-based - ST-Foreign Bill Discounting		-	-	-	39.00	CARE A2
Fund-based - LT-Term Loan		-	-	August 2026	6.22	CARE BBB+; Stable
Non-fund-based - ST-Credit Exposure Limit		-	-	-	10.00	CARE A2

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT/ST-Packing Credit in Foreign Currency	LT/ST*	46.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (02-Jul-21)	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)
2	Fund-based - ST-Foreign Bill Discounting	ST	39.00	CARE A2	-	1)CARE A2 (02-Jul-21)	1)CARE A3 (01-Sep-20)	1)CARE A3 (02-Mar-20) 2)CARE A3 (31-Jul-19)
3	Non-fund-based - ST-Letter of credit	ST	-	-	-	-	-	1)Withdrawn (31-Jul-19)
4	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	-	-	1)Withdrawn (31-Jul-19)
5	Fund-based - LT-Term Loan	LT	6.22	CARE BBB+; Stable	-	1)CARE BBB+; Stable (02-Jul-21)	1)CARE BBB; Stable (01-Sep-20)	1)CARE BBB; Stable (02-Mar-20) 2)CARE BBB; Stable (31-Jul-19)
6	Non-fund-based - ST-Credit Exposure Limit	ST	10.00	CARE A2	-	1)CARE A2 (02-Jul-21)	1)CARE A3 (01-Sep-20)	1)CARE A3 (02-Mar-20)

\*Long term/Short term.

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

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

Sr. No.	Name of 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

**Annexure-5: Bank lender details for this company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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### About us:

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