

## SKM Egg Products Export (India) Limited

July 31, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	54.50	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	90.00 (Enhanced from 64.00)	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	70.00 (Enhanced from 49.00)	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of 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 and comfortable coverage indicators and adequate liquidity position. The ratings also favourably consider the robust growth in the income and improved profitability during FY23 due to improved realization of its products backed by healthy demand in the export market. 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: Factors likely to lead to rating actions

#### Positive factors

- Ability to scale up the operations to over ₹1,000 crore while maintaining PBILD margin above 15% on a sustained basis.
- Improvement in the capital structure with overall gearing below 0.3x.

#### Negative factors

- Any further large debt-funded capex leading to deterioration in the capital structure with overall gearing above the range of 0.75x.
- Weakening of the liquidity profile with free cash and liquid investments below ₹30 crore on a sustained basis.

### Analytical approach:

Standalone

### Outlook: Stable

The stable outlook reflects that the company is expected to sustain its operational performance in the medium term backed by improved demand for the products along with its diversified product profile and strong presence in the market.

### Key strengths

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

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

<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

The operations of SKML are integrated with the company having its own and leased poultry farm to meet its entire egg requirements and also 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 to 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 70%-75% of the overall export of egg yolk and albumin egg powder from India. The company has a diversified range of products, including egg yolk powder, egg albumin, bakery mix, liquid egg, etc. SKML has well-established distribution network spread across various countries, with exports contributing around 55%-80% of the revenue over the past three years ended FY23.

**Improved financial performance during FY23**

During FY23, the company had reported income of ₹657.14 crore register y-o-y growth of 120% over FY22. The PBILDT margin also improved significantly to 21.90% in FY23 from 12.74% in FY22. The growth in the income and improved profitability was largely driven by the healthy demand for the egg powder products from India in the export markets following outbreak of Bird flu in the US and UK regions and due to lower production cost of eggs in India compared to the other geographies.

**Comfortable gearing and coverage indicators**

The company's capital structure remained comfortable with an overall gearing at 0.54x as on March 31, 2023, against at 0.81x as on March 31, 2022. During the current year, the company had planned for capex towards setting up of Environmental controlled (EC) shed for birds and Bio-gas plant with total project cost of ₹70 crore of which ₹50 crore funded by debt and rest by accruals. The project is expected to be completed by Q1FY25. Despite the above debt-funded capex, the capital structure is expected to remain comfortable going forward aided by strong accretion of profits. The interest coverage ratio also stood comfortable at 15.39x (PY:9.97x) in FY23. The debt coverage metrics also improved with total debt/ gross cash accruals (TD/GCA) of 0.95x as on March 31, 2023, as against 2.99x as on March 31, 2022.

**Key weaknesses**

**Geographically concentrated revenue**

SKML's top 10 customers accounted for 49% (FY22: 54%) of its total sales during FY23 and majority of sales are contributed by Japan and Russia, which together account for 59.2% (50.4% in FY22) of the total sales in FY23. SKML's higher concentration on Japanese and European markets exposes the company to any change in the 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 the domestic market for the sale of its liquid products and frozen egg albumen.

**Exposure to foreign exchange risk**

More than 75% of SKML's revenue 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 the 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 pasteurisation and high-quality processing at the company's units reduces any major impact on the company's revenues during such outbreaks.

**Liquidity: Strong**

The liquidity is marked by strong accruals of ₹109.16 crore in FY23 against negligible repayment obligations of ₹1.25 crore in FY24 with cash and liquid investments to the tune of ₹56.83 crore as on March 31, 2023. The operating cycle improved to 85 days in FY23 (PY: 135 days in FY22) due to better movement of finished goods inventory. SKML has been sanctioned with working capital of ₹150 crore, which enhanced from ₹103 crore in April 2023, and the average utilisation of the same stood at 75.70% for the last 12 months ended June 2023. The current ratio stood comfortable at 2.01x as on March 31, 2023.

## Prospects

India is the fifth 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 National Egg Co-ordination Committee (NECC), while the prices of egg powder depend on international market demand. Notably, 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 the 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.

## Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

## About the company and industry

### Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Fast Moving Consumer Goods	Fast Moving Consumer Goods	Food Products	Other Food Products

### 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, with the promoters holding 47.97% stake, TIDCO holding 7.58% stake, and the rest held by institutions and general public. SKML is engaged in the manufacture & 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 the health & pharmaceuticals sector. The company has an installed capacity to break 1.8 million eggs per day to produce 7500 MT of egg powder annually.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	258.44	298.82	657.14
PBILD	44.43	38.08	143.89
PAT	15.67	7.86	75.56
Overall gearing (times)	0.70	0.81	0.54
Interest coverage (times)	11.83	9.97	15.39

A: Audited; Note: 'the above results are latest financial results available'

**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 / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Annexure-4

**Lender details:** Annexure-5

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

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	March 2031	54.50	CARE A-; Stable
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	90.00	CARE A-; Stable / CARE A2+
Fund-based - ST-Foreign Bill Discounting		-	-	-	60.00	CARE A2+
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 2023-2024	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
1	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST *	90.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (05-Apr-23)	1)CARE BBB+; Stable / CARE A2 (02-Jul-22)	1)CARE BBB+; Stable / CARE A2 (02-Jul-21)	1)CARE BBB; Stable / CARE A3 (01-Sep-20)
2	Fund-based - ST-Foreign Bill Discounting	ST	60.00	CARE A2+	1)CARE A2+ (05-Apr-23)	1)CARE A2 (05-Jul-22)	1)CARE A2 (02-Jul-21)	1)CARE A3 (01-Sep-20)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
					23)	22)	21)	20)
3	Fund-based - LT-Term Loan	LT	54.50	CARE A-; Stable	1)CARE A-; Stable (05-Apr-23)	1)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB+; Stable (02-Jul-21)	1)CARE BBB; Stable (01-Sep-20)
4	Non-fund-based - ST-Credit Exposure Limit	ST	10.00	CARE A2+	1)CARE A2+ (05-Apr-23)	1)CARE A2 (05-Jul-22)	1)CARE A2 (02-Jul-21)	1)CARE A3 (01-Sep-20)

\*Long term/Short term.

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

**Annexure-4: Complexity level of the various instruments rated**

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

**Annexure-5: Lender details**

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

**Note on the 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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