SKM Egg Products Export India Limited

August 06, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	53.17 (Reduced from 54.50)	CARE A-; Stable	Reaffirmed
Long-term / Short-term bank facilities	90.00	CARE A-; Stable / CARE A2+	Reaffirmed
Short-term bank facilities	70.00	CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of SKM Egg Products Export India Limited (SKML) continue to derive strength from its long operational track record for more than two decades in the egg powder business, dominant share in the export of egg powder from India, strategically located manufacturing facilities with adherence to high-quality standards, integrated nature of operations and diversified product offerings with a well-established distribution network. Ratings also factor in the comfortable capital structure, comfortable coverage indicators and strong liquidity position. However, ratings are constrained by SKML's geographical and client concentration risk, susceptibility of profitability to international egg powder prices and foreign exchange fluctuations. Ratings also factor in the susceptibility of the industry to 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 profit before interest lease rentals, depreciation, and taxation (PBILDT) margin above 15% on a sustained basis.
- Improving capital structure with overall gearing below 0.3x.

Negative factors

- Further large debt-funded capex leading to deteriorating 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 benefiting from integrated nature of operations with diversified product profile and strong presence in the market.

Detailed description of the key rating drivers:

Key strengths

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

SKM Maeilanandhan, promoter of the SKM group, has nearly four decades of experience in the poultry and related industries. He is assisted by his son, Shree Shivkumar, with nearly 26 years of experience in the industry. SKML has a long track record of operations for over two decades in the manufacturing and exporting 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 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.

[1]Complete definition of the ratings assigned are available at 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, accounting for almost 65%-70% 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, and liquid egg, among others, which are widely used in bakery, pasta, noodles, meat & fish products and in mayonnaise. SKML has well-established distribution network spread across various countries, with exports contributing around 55%-80% of the revenue in the last three years ended FY24.

Comfortable gearing and coverage indicators:
The company's capital structure remains comfortable with an overall gearing at 0.59x as on March 31, 2024, against at 0.66x as on March 31, 2023. In FY23 and FY24, the company had completed the capex towards setting up of Environmental controlled (EC) shed for birds and biogas plant with total project cost of ₹70 crore of which ₹50 crore funded by debt and rest by accruals. The interest coverage ratio also stood comfortable at 14.89x (PY:15.37x) in FY24 due to interest subvention scheme resulting in lower interest on borrowings while the total debt/ gross cash accruals (TD/GCA) stood at 1.29x as on March 31, 2024 as against 1.17x as on March 31, 2023.

Stable financial performance in FY24:
In FY24, the company had reported relatively stable income of ₹692 crore against ₹657 crore in FY23. The PBILDT margin improved marginally to 22.12% in FY24 from 21.87% in FY23. The sales realisation of Albumin and other egg products had increased significantly in FY23 and H1FY24 and the same had now normalized in the last few quarters.

Key weaknesses

Geographically concentrated revenue:
SKML's top 10 customers accounted for 51% (FY23: 49%) of its total sales in FY24 and majority of sales are contributed by Japan and Russia which together account of 46% (59% in FY23) of total export sales. 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 industry's performance to outbreaks of flu and other diseases:
A ban on exports could lead to products being piled up leading to an excess supply situation causing a sharp fall in the end-product prices. Such scenario is expected to have an impact on the company's revenues and profitability. In the past, during such bird flu outbreaks, the company's sale of egg powder has also been affected to an extent. However, the high level of safety standards such as high temperature pasteurization and high-quality processing at the company's units reduces any major impact on the company's revenues in such outbreaks.

Liquidity: Strong
The company has a strong liquidity profile marked by free bank balance and demand deposits to the tune of ₹139.49 crore as on March 31, 2024. GCA stood at ₹124.42 crore in FY24 against repayment obligation of ₹5.44 crore in FY25. The average working capital utilisation of fund-based limits stood comfortable at 65% for the past 12 months ended May 2024. The operating cycle stood at 91 days in FY24, though, improved from 135 days in FY22 due to better movement of finished goods inventory. The current ratio stood comfortable at 2.28x as on March 31, 2024 (PY:1.84x).

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

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

SKM Egg Products Export India Ltd (SKML), promoted in 1995 by Mr. 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, 2024, the promoters held 47.53% stake, TIDCO 7.58% stake and the rest held by institutions and general public. SKML is engaged in 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 health & 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. SKML is an export oriented unit exporting egg powder to more than 30 countries (mainly to Europe, Japan, Russia, Indonesia, and Middle East) across the world.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	293.62	657.14	692.18
PBILDT	32.88	143.73	153.12
PAT	7.87	75.42	83.91
Overall gearing (times)	0.81	0.66	0.59
Interest coverage (times)	8.60	15.37	14.89

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	53.17	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 2024-2025	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
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+ (31-Jul-23) 2)CARE A-; Stable / CARE A2+ (05-Apr-23)	1)CARE BBB+; Stable / CARE A2 (05-Jul-22)	1)CARE BBB+; Stable / CARE A2 (02-Jul-21)
2	Fund-based - ST-Foreign bill discounting	ST	60.00	CARE A2+	-	1)CARE A2+ (31-Jul-23) 2)CARE A2+ (05-Apr-23)	1)CARE A2 (05-Jul-22)	1)CARE A2 (02-Jul-21)
3	Fund-based - LT-Term loan	LT	53.17	CARE A-; Stable	-	1)CARE A-; Stable (31-Jul-23) 2)CARE A-; Stable (05-Apr-23)	1)CARE BBB+; Stable (05-Jul-22)	1)CARE BBB+; Stable (02-Jul-21)
4	Non-fund-based - ST-Credit exposure limit	ST	10.00	CARE A2+	-	1)CARE A2+ (31-Jul-23) 2)CARE A2+ (05-Apr-23)	1)CARE A2 (05-Jul-22)	1)CARE A2 (02-Jul-21)

LT: Long term; ST: Short term; LT/ST: 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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